Viewing and reviewing the Thai economic crisis: Culture and context

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VIEWING AND REVIEWING THE THAI ECONOMIC CRISIS: CULTURE AND CONTEXT

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2005

For many, the International Monetary Fund (IMF) is seen as an inconsiderate dictatorial institution forced upon the struggling emerging economies of this world, yet influenced by Washington. The 1997 economic crisis in Thailand, of which the key feature was the collapse of the Thai Baht on July 2nd 1997, is often argued to not only have been caused by the IMF through its extensive liberalisation conditions recommended in the 1980s, but further exacerbated by a complex strategy of mismatched policies forced upon the Thai economy after the crisis itself.

This research provides an in-depth analysis of the IMF-policy prescription process, to clarify why IMF-policies did not stimulate a quicker economic recovery in Thailand, and why in many cases the policies they prescribed in the aftermath of the crisis have not come into fruition. This research also offers an understanding of the necessities required for efficient and effective post-crisis recoveries, on a larger scale, not simply in Thailand. Most controversially of all, this research explores the extent of governmental twisting and manipulation of prescribed policies as they infiltrate both the political and cultural economies, a key issue for global development agencies for future policy promotion.

The Thai banking sector is used as an industry case-study to analyse how IMF policies were channelled to the grass roots of a sector, and how efficiently; demonstrating the complexities of this process: informational, cultural and political. Whilst this project focuses solely on the experience in Thailand, this research aims to illustrate the complexity of policy implementation, and demonstrate that barriers and constraints to policy execution arise in many different guises. This research does not, however, seek to offer a panacea for the execution of recovery policies for global institutions. From one perspective this research may suggest that in fact no such thing exists, as a key lesson to be learnt from any crisis experience is that the local specificities necessitate tailor-made solutions requiring acute attention to be paid to the local culture and the political system. Thus one of the main outcomes of this research is to demonstrate whether the problems of crisis recovery lie in the reform policies themselves, or their domestic implementation, based on the experiences of the Thai banking sector.

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INTRODUCTION

1.1: IMF Policy Efficiency in Thailand – A Case Study of the Banking Sector

"For too long the IMF has gone about its business, dictating economic policy to any country unfortunate enough to need its money, without any inclination to engage in open debate about what it does, how it makes decisions, and whose interests it is serving."
Masina, P. (2002)

"The IMF paid no attention to local criticism of the [reform] package"
Phongpaichit (2000:40)

These citations in many ways capture the widely accepted view of the role of the International Monetary Fund (IMF), as an inconsiderate dictatorial institution forced upon the struggling emerging economies of this world, yet influenced by Washington. The extent to which this was the case in the experience of Thailand will be under investigation, and a central focus, of this research.

The crisis in Thailand, of which the key feature was the collapse of the Thai Baht on July 2nd 1997, is often argued to not only have been caused by the IMF through its extensive liberalisation conditions recommended in the 1980s, but further exacerbated by a complex strategy of mismatched policies forced upon the Thai economy after the crisis itself. According to Joseph Stiglitz "*today, the IMF agrees that the fiscal policies…it pushed were excessively contractionary, but it does not own up to the mistakes of monetary policy*" (Stiglitz, 2002) . Criticism of the IMF's intervention was widespread in the wake of the Thai experience "*with growing evidence of the IMF failure, and with growing pressure from business nationalism, and populism, criticism of the IMF strategy spread even to some staunch supporters of liberalisation*" (Phongpaichit, 2000:47).

In the domestic press at the time, doubts were cast over the whole IMF set-up, as it became popular opinion that the IMF did not have sufficient local understanding of the Thai political, economic, and indeed, cultural systems and as a result did not design appropriate policies and forecasts. These beliefs were held at high political levels demonstrated by Virabhangse Ramangkura, a former finance minister, who said at the time "*I doubt the US has a true understanding of the local economy*" (ibid.:48), and the commerce minister, Supachai Panitchapakdi, who simply observed "*The IMF was wrong*"(ibid.:48).

Taking the financial sector as an example, it is argued that the policies prescribed from the outset of the crisis to the current day were inappropriate. However was it simply a case that "*misunderstanding or ignorance of cultural factors led to normal financial prudential policies being suspended in a kind of oriental zero-gravity, where an inscrutable 'other' logic applied*" (Dean, 1999), and that the IMF policies were somehow distorted and manipulated once implemented into the Thai financial system?

To explore the issues surrounding IMF policies, such as whether they were sufficiently flexible and suitable, I will take the Thai banking sector as a case study to analyse how IMF policies were channelled to the grass roots of a sector, and how efficiently. I intend to demonstrate the complexities of this process, informational, cultural and political, and evaluate the impact of extending policies designed by international institutions in a foreign framework, and whether distortion, or policy re-working occurs.

Much Western literature regarding the crisis in Thailand and indeed the rest of Asia concentrates heavily on the bigger picture of IMF involvement, the various crisis causes and global implications. By comparison, little attention has been paid to the aftermath of the crisis and assessed why recovery has been slower than expected. Instead of taking a very general approach to policy reform I intend to develop a critical analysis of key banking policies as they channel from the top government level, right through to their implications on both domestic and international institutions and corporations operating in Bangkok today.

Is it really the case that the IMF was wrong? The assessment of the IMF's paper "Financial Sector Crisis and Restructuring – Lessons from Asia" (IMF, 1999) implies that careful consideration was paid to the tailoring of policies required. Phrases such as "*strategies must be adapted to fit countries' circumstances*" (ibid.:5) and the emphasis on "*careful tailoring of the reform and resolution strategies for each country*" (ibid.:7) suggest that the IMF didn't simply apply a traditional solution and 'hope for the best', despite inferences from senior Thai officials that this was to some extent the case. However the role of the IMF is not simply about buzzwords. Their commitment to Thailand was often questioned, especially as Lawrence Summers, the US deputy treasury secretary justified "*Thailand is not on our border*" (Phongpaichit, 2000:40), implying that IMF crisis policy is somehow conditional on proximity to Washington.

Were the problems in the Thai experience derived from a lack of understanding of the situation from the hegemonic Western point of view, or was it that the IMF were naïve in assuming that their policies would remain coherent upon entering the Thai arena? Whilst the conclusions I deduce are not representative of all policies implemented during the reform, in my thesis I suggest that overhauling a country's economic system is not a matter of 'pushing the right buttons' but requires a thorough assessment of a range of complex variables that influence and impinge on the flow of information and policy acceptance.

My research is directed by the following key questions:

- To what extent did the IMF prescribe suitable, tailor-made policies for the Thai recovery, and what mistakes have been made?

- What was the process of policy implementation – how did the IMF channel its policies to the grass roots of the Thai economy, specifically the banking sector?

- To what extent have banking policies prescribed by the IMF been implemented directly and efficiently by the Thai government, and what have been the biggest obstacles to their implementation?

- What have been the consequences of re-worked banking policies within Thailand, in economic, political and social guises?

In an effort to shed new light on these questions, my analysis will rely on interviews with prominent individuals involved in these processes, as well as a range of secondary sources.

In answering these questions, I intend to provide an in-depth analysis of the IMF-policy prescription process, to clarify why IMF-policies did not stimulate a quicker economic recovery in Thailand, and why in many cases the policies they prescribed in the aftermath of the crisis have not come into fruition. The lessons to be learnt from these answers are seminal to understanding the necessities required for efficient and effective post-crisis recoveries, on a larger scale, not simply in Thailand. These answers, most controversially of all, will explore the extent of governmental twisting and manipulation of prescribed policies as they infiltrate both the political and cultural economies, a key issue for global development agencies for future policy promotion.

Whilst this project focuses solely on the experience in Thailand, this research aims to illustrate the complexity of policy implementation, and demonstrate that barriers and constraints to policy execution arise in many different guises. This research does not, however, seek to offer a panacea for the execution of recovery policies for global institutions. From one perspective this research may suggest that in fact no such thing exists, as a key lesson to be learnt from any crisis experience is that the local specificities necessitate tailor-made solutions requiring acute attention to be paid to the local culture and the political system. Thus one of the main outcomes of my research will be to demonstrate whether the problems of crisis recovery lie in the reform policies themselves, or their domestic implementation, based on the experiences of the Thai banking sector.

This analysis will unfold considering the impact of programme design, information flows, political and bureaucratic issues and the role of culture, as impediments to the efficient implementation of the IMF policies proposed in the wake of the Asian crisis in 1997.

THE FALL OF A TIGER: CONTEXTUALISING THE CRISIS

"*Thailand's financial crisis was at least three years old before it dramatically received global attention with the de facto devaluation of the Baht on 2 July 1997*" (Bullard, 1998:505). The crisis in Thailand, much like International Monetary Fund (IMF) intervention, began long before 1997. For many, the problems originated during the import-substitution era of the 1980s, prompting the entrance of the IMF in Thailand. Others look to the export-orientated programmes implemented in the wake of the second oil crisis in 1984; the IMF programmes which initiated the famous 'Asian Miracle'. The debates surrounding the events in Thailand in the last few decades are far from exhausted. The Asian crisis is one of the most documented events in Asian history and new material concerning the crisis is produced regularly. Nevertheless, there are vital gaps concerning the micro-scale impacts of the crisis and the reforms that were subsequently initiated. This research endeavours to fill some of these gaps, by critically analysing the efficiency and effectiveness of implementing post-crisis reforms in the Thai economy.

It is vital, however, that an appreciation of the crisis and its history is grasped before being able to fully understand the context of this research. Indeed the crisis has been analysed from many different perspectives, and by many different academic disciplines. It would be foolish to attempt to condense the whole crisis history and its preceding boom into a chapter for the purpose of this research. Instead this chapter will describe three key areas, which are critical to understanding the forthcoming research discussion: the ideas and role of the Washington Consensus, then more specifically the role of the IMF in Thailand, and finally a micro-scale focus on the evolution of the Thai banking sector from the 1990s.

Many writers have provided detailed accounts of the crisis, and provide much fuller descriptions than one could manage in an introductory chapter such as this (Bello, 1992, Bird, 1999, Dixon, 2001, Haggard, 2000, Kuankachorn, 1998, Phongpaichit, 1996, 1998, 2000, Vichyanand, 1998, Wade, 1998b, Warr, 2005, Winters, 1999).

2.1: The Keystone of the IMF: The Washington Consensus

The IMF-led reform in Thailand during the 1980s and 1990s was grounded in "*Anglo-American liberalism*" (Berger, 1998:8) more commonly referred to as the Washington Consensus[1]. This embraced "*financial sector liberalisation, privatisation of state-owned enterprises, fiscal discipline and trade, exchange rate and foreign investment deregulation*" (Jayasuriya, 2001:381). The rationale behind these policies stems from 19th century economics; Joseph Stiglitz states "*the Washington Consensus policies...were based on a simplistic model of the market economy, the competitive equilibrium model, in which Adam Smith's invisible hand works, and works perfectly*" (Stiglitz, 2002:74). The root of this theory is that markets are efficient and do not require state intervention. This school of thought was reinforced with the collapse of Communism in Eastern Europe in the late 1980s.

The concept of free-market capitalism, which underpins the Washington Consensus, and indeed the programmes of the IMF and the World Bank, is that by opening up a country to the much bigger global market, a country can reap vast benefits. These are primarily of specialisation, which increases efficiency, and of comparative advantage,

[1] Coined by economist John Williamson in 1989

which states that a country is better off if it concentrates on a key activity in which it has a competitive advantage. There a plethora of economic models which evaluate the net benefits of free trade and globalising markets. The downfall of these models and in many respects the entire theory, is that they are rarely realistic. We do not live in perfectly competitive societies where markets determine resource allocation accurately and efficiently. Labour markets are not perfectly flexible. Skills are not always transferable. Even in 'free market economies', tariffs, preferential trade relationships, and market imperfections exist. In more advanced countries these are often more subtle than tangible tariff barriers, but agricultural subsidy schemes, such as the European Common Agricultural Policy, are perfect examples of how imperfect developed markets really are (Grant, 1997). Perfect markets do not exist.

Karl Polanyi famously elaborates on these key flaws in his book *The Great Transformation (1944)*. Stiglitz writes in his forward, in the 2001 edition of the book, that "*...Polanyi exposes the myth of the free market: there never was a truly free, self-regulating market system. In their transformations, the governments of today's industrialized countries took an active role, not only in protecting their industries through tariffs, but also in promoting new technologies*" (Polanyi, 2001 [1944]:xiii). This explains the weaknesses in the Washington Consensus models, as it exposes the gap between the theory of free markets and the practice of market economics.

The Asian crisis was important in demonstrating these flaws in practice, as Jayasuriya explains:

> "*the Asian economic crisis has exposed a deep ideological fracture within the dominant multilateral policy paradigm commonly referred to as the Washington consensus. Why has Asia been so critical? Because quite simply the Asian economic miracle was seen to be the outcome of pursuing the kinds of policies advocated by proponents of the Washington consensus. The crisis has badly fractured this consensus because it has raised doubts about the presumed benefits of one of its key elements—financial liberalisation—and undermined earlier orthodox analysis of the origins of the miracle*" (Jayasuriya, 2001).

What is also interesting in the Asian experience, as will be discussed shortly, is that the Thai government implemented many policies which did <u>not</u> conform to the theory of the Washington Consensus model. In many ways this was the key to the Asian success of the 1990s, as "*the* [Asian] *countries had been successful not only in spite of the fact that they had followed most of the dictates of the Washington Consensus, but because they had not*" (Stiglitz, 2002:91).

It is therefore clear there is much controversy surrounding Washington Consensus policies, and the policies of the IMF. Indeed "*there would be less debate about the future of the Fund and its role in developing countries and emerging economies if its programmes had been perceived as successful in the past*" (Bird, 2001).

However the argument then remains whether the crises in IMF-supported countries are a consequence of the Washington Consensus policies, or the inability of the domestic economies to appropriately apply them. Higgott argues "*while the purist free market position may be asserted with less ideological fervour now than several* *years ago, it remains an article of faith in the policy communities and in most of the scholarly economics community of the western world. The real problem, they argue, is to be found in the flawed banking systems of the emerging markets, not in the workings of the international capital markets*" (Higgott, 1999). Stiglitz reaffirms this view when he writes that "*financial market liberalization unaccompanied by an appropriate regulatory structure is an almost certain recipe for economic instability*" (Stiglitz, 2002:84), as do Eichengreen and Mussa (Naim, 2000:30).

There are important lessons to be learnt from the Asian crisis. For example, one cannot discredit Thailand's success of the 1980-90s simply because of the crash in 1997. The growth and rapid transition undertaken by the Thai economy is dramatic evidence of what can be achieved with appropriate motivation and direction. Indeed because of the crisis one cannot annul the foundations of the Washington Consensus, as in many cases they were a success. Stiglitz emphasises this:

> "*the East Asian crisis is not a refutation of the East Asian miracle. The more dogmatic version of the Washington Consensus does not provide the right framework for understanding both the successes of the East Asian economies and their current troubles. Responses to East Asia's crisis grounded in this view of the world are likely to be, at best badly flawed, and at worst, counterproductive*" (Stiglitz cited in: Naim, 2000).

Developing this further, on a bigger scale, one cannot discredit the claims that globalising markets provides a more efficient means for allocating global resources. While the crisis is an important lesson for the vital steps required for successful liberalisation, one cannot deny the benefits Thailand reaped upon opening up their economy. As Higgott describes:

> "*globalisation needs to be understood as a multi-faceted process that is both material (real) across the economic domains and ideational (offering competing normative discourses of knowledge of how the global economic and political orders might function). But this is a developing, contingent and, as events in the global economy since the second half of 1997 attest, by no means irreversible process*" (Higgott, 1999).

In the wake of the crisis, especially due to its global-scale impacts, policy theorists and economists have called for a review of the current policy paradigm. Calls are being made for a new 'Post-Washington Consensus', which will be looked at in the concluding chapter, and high profile names are offering alternative ideas, for example Nobel laureates James Tobin and Milton Friedman (Naim, 2000).

However, the purpose of this summary has been to introduce the essential assumptions behind the IMF's policies, that of the Washington Consensus. It is true that the suitability of this model and its policies have suffered serious criticism, and this will be elaborated on in Chapter 4. This summary has demonstrated that the Asian crisis played a vital role in reassessing the role of the IMF and the neo-liberal, market-friendly school of thought, although neither can be completely discredited as a result. This current debate, like many issues in this research, is elaborated on in a wealth of literature; better dealing with all the related perspectives than could be achieved here (Bello, 2000, 2001, Bird, 2001, Ghosh, 2002, Goldstein, 2001, MacEwan, 2002, Mittelman, 2001, Rikowski, 2001, Soederberg, 2001, Tobin, 2004, Truman, 2001).

2.2: From recession and boom, to bust: the role of the IMF in Thailand

The early 1980's represented an era of poor economic performance for Thailand. Dominated by a pivotal private sector calling for increased import-substitution, the Thai economy was sluggish, characterised by low growth, large-scale unemployment whilst simultaneously the largest companies reported flat profits or bankruptcy. The Bangkok Post summarised the views from a conference with the observations that "*Thailand's future does not look rosy with the economy in the worst shape it has ever been in*" (BP, 1985). Stuck in a state of stagnant recession, the IMF was drafted in to help in 1984 once the economy had suffered further in the wake of the second global oil crisis. The aims of its programmes were to facilitate structural adjustment and to re-stabilise the economy. In contrast to the existing Thai model, "*the Bank made its loans conditional on a package of 'export push' reforms*"(Phongpaichit, 1996:65), with key features being opening up to trade liberalisation and devaluing the Baht, both typical of market-friendly thinking. In the November of 1984, the Baht was devalued by 14.8 percent (ibid:66).

Following the devaluation Thailand moved into a second phase of industrialisation, dominated by export-orientated growth. This new focus was to become the beginning of Thailand's contribution to the 'Asian Miracle'. According to Barber, "*there is widespread agreement that the world's most successful developing countries have been those of the Association of Southeast Asian Nations (ASEAN) and some of its East Asian neighbors in the 1980s*" (Barber, 1995:243). This new economic programme was supported by the technocrats of the IMF and the World Bank and in many ways replicated the policies popular in the late seventies; before the booms in Korea, Japan and Taiwan, the President of the World Bank at that time had stated "*special efforts must be made in many countries to turn their manufacturing away from the relatively small markets associated with import substitution toward the much larger opportunities flowing from export promotion*" (McNamara, 1975). Further evidence of the faith in East Asia upheld by the World Bank was publicly documented in the 1993 World Bank Report: The East Asian Miracle.

It has been suggested that the range of measures implemented by the government demonstrated complete commitment to the programme:

> "*the reduction of import taxes for materials used in exports, the abolition of several export taxes, the establishment of special credit facilities for exporters, the promulgation of investment incentives favouring enterprises that exported all or most of their output, and the active solicitation of foreign investment by, among other things, allowing 100 per cent foreign ownership in promoted enterprises that exported 100 per cent of their output*" (Phongpaichit, 1995:151).

The impact of these policies was immense. According to the World Bank, between 1985-1995 Thailand grew at 10 percent per annum, earning it the title of the fastest growing economy in the world.

The IMF and the World Bank continued to play an influential role in the global perception of the Thai economy and the 'Asian miracle', helping Thailand to appear 'successful'. Not only were they active in shaping both the short-term and long-term strategies but they financially backed these projects with five structural adjustment loans issued throughout the 1980s. The sense that the Thai economy had come of age was further justified as the World Bank formally acknowledged Thailand to be the fifth Asian tiger in 1991, sharing this title with Korea, Taiwan, Singapore and Hong Kong.

Further World Bank and IMF authority was exerted in the early 1990s, with increasing pressure for greater liberalisation and the further deregulation of the Thai economy. After the military coup of 1991, Anand Panyarachun took control of the country. A former diplomat, Anand was a key supporter of the technocrats who had embraced the IMF's export-orientated policies of the 1980s. As a result the Thai economy continued to conform to IMF recommendations and in May 1990 the Anand government accepted the IMF's Article VIII, removing controls on foreign exchange for current account transactions (Drysdale, 2002). Even when the first elected Prime Minister Chuan Leekpai came to power in 1994, there was continued pressure for further deregulation and liberalisation in the Thai economic system. The extent of this 'opening-up' incited one newspaper to report "*in relative terms, Thailand is even more generous than Japan, an economic superpower, in the liberalisation of its financial sector*" (TN, 1997(70)).

While on the surface it may have appeared that Thailand was an exemplar of the Washington Consensus, the IMF and the World Bank did little to ensure a complete liberalisation and deregulation of the Thai economy. It was clear early in the 1990s that Thailand was not an archetypal economy for the Washington Consensus model; the model which the IMF and World Bank so forcefully advocated. There were several flaws in the programme of reform employed, which paved the way for the crisis of 1997. These are well documented, and thus warrant no repetition here (Dixon, 2001, Lauridsen, 1998, Nukul Commission, 1998, Phongpaichit, 1998, 2000, Santiprabhob, 2003, Vichyanand, 2000, 1998, Wade, 1998a). What is surprising is that the IMF and the World Bank kept so quiet over policies adopted by successive Thai governments which so blatantly contradicted much of what the IMF and the World Bank preached. The two cornerstone policies to suffer such controversy were the maintenance of high interest rates, in excess of 20 percent at times, and the fixing of the Baht to the dollar at 25 Baht = $1[2].

It was not until July 1997 that the IMF and the World Bank played such public roles in Thailand as they did in 1991. The crisis came upon Thailand, as it did Asia and the rest of the world, by surprise. Walden Bello best describes the attitudes of the Thai technocrats to the IMF as "*not unlike that of a player approaching the coach with a quizzical look that said: 'What happened? But I was just following your instructions'*" (Bello, 1998:45).

Having addressed the history of the Thai economy in the lead up to the crisis, one can now focus on the crisis, and the recovery. Upon arrival in July 1997, the IMF

[2] The Baht was in fact pegged to a basket of currencies, made up of the Japanese Yen and the Deutsche Mark as well as the US dollar. However the dollar was by far the most heavily weighted currency.

assumed a very active role in the Thai economy, establishing first a programme of stabilisation, to control the crisis, and secondly, a deeper structural overhaul of the Thai financial sector, to solve the key causes of the crisis. Their arrival was welcomed with open arms, with most of the urban population displaying an anti-government sentiment. General belief was that the Chavalit government (elected in 1996), had mismanaged the onset of the crisis (Phongpaichit, 2000:37). These views also stemmed from the perception that 'cronyism', that is *excessive* government intervention in the Thai economy, had been a fundamental cause of the crisis. This too favoured the arrival of the IMF, whose policies focus on minimum government involvement, and supply-and-demand based resource allocation.

The IMF was an integral feature of the Thai economy during the following two years due to their two-tiered programme of stabilisation and reform. This was developed in negotiations involving the Thai government and the Bank of Thailand, through 'Letters of Intent (LoI)'. The first LoI was signed on August 14 1997; there were eight LoI's in total, with the last dated September 21 1999. These LoI's were the primary means by which decisions, made between the IMF and the government, were communicated to the general public. They outlined targets, reforms and guidelines for the whole reform process, from social security safety nets, to monetary and exchange policies, and legal reform.

As in the 1980s, the IMF demonstrated their support of the Thai economy with a financial reform package, this time of US$17.2 billion. The IMF itself was responsible for US$4 billion, with the remainder generated mainly by Asian sources (Phongpaichit, 2000). Whilst the financial package was substantially less than the package offered to Mexico during the Peso crisis of 1994, it was very much an adaptation of those policies applied earlier in Latin America[3]. Pasuk explains: "*in the Latin American experience, there would be some initial capital flight, but international confidence would return in six months. The IMF confidently predicted a similar effect in Thailand. It believed that the strict IMF package would itself contribute to stability by restoring confidence, stemming the capital outflows, and halting the currency's slide*" (Phongpaichit, 2000:39).

Unfortunately for both the IMF and the Thai economy the unfolding crisis was undeterred by this restorative package. Many of the reforms outlined in the LoI's are either unaddressed, or still pending in Parliament, such as the privatisation of EGAT[4] as described in the LoI dated February 24 1998. Some of the reforms which have been initiated have been watered-down, for example the reform of bankruptcy policy. Some policies, such as further economic liberalisation, have simply been rejected. The truth is that despite the IMF encouraging these reforms, and achieving co-operative signatures from Thai government ministers, they have not been efficiently channelled into the political and social economies. Various factors have played a part, although these have yet to be discussed in the academic literature. It is thus the role of the following research to ascertain why there have been such obstacles to reform, and what they are, with particular focus on the Thai banking sector. What has already been established in this chapter is that resistance to IMF policies existed at top government levels. This has been indicated by the government's implementation of

[3] See the Mexican crisis (1994) and the Chilean crisis (1982) for specific examples.
[4] EGAT (Electricity Generating Authority of Thailand)

market-'unfriendly' policies, such as the pegged exchange rate. Further obstacles, which will be discussed at length in the following chapters, are in the form of informational barriers and the Thai culture. It is therefore imperative to understand how the banking sector in Thailand has evolved since the 1990s to the current day.

2.3: Banking on Thailand

Although the Thai economy began its revolution in the 1980s, this change was predominantly structural, and the subtleties of policy change didn't undergo radical reform until the early 1990s; this is certainly the case with the banking sector. The acceptance of Article VIII in 1991 was arguably the cornerstone for Thai banking reform. Increasing domestic and new foreign demands on the Thai banks began to pose questions that the highly regulated, relationship-banking[5] network could not answer. Financial sector liberalisation was thus of paramount importance to the IMF, and indeed was regarded as underpinning the success of their export-orientated programme.

As a result of Article VIII, and directed by the IMF and the Anand government, the banking sector underwent complete reform. Bello explains

> "*a number of significant moves to open up the system were undertaken, including the removal of ceilings on various kinds of savings and time deposits; fewer constraints on the portfolio management of financial institutions and commercial banks such as replacing the reserve requirement ratio for commercial banks with the liquidity ratio; looser rules on capital adequacy; the expansion of the field of operations of commercial banks and financial institutions; the dismantling of many foreign exchange controls so that the public could freely purchase foreign exchange from the banks without prior approval from the authorities; and the establishment of the Bangkok International Banking Facility (BIBF)*" (Bello, 1998:19-20).

The establishment of the BIBF was perhaps the most influential single event in the liberalisation of the Thai economy. The BIBF was set up in March 1993; its purpose was to transform Bangkok into an international centre of finance, increasing competition in the financial sector. It allowed both local and foreign banks to deposit and borrow foreign currencies, encouraging activities with concessions such as "*reduction of corporate income tax, exemption from special business tax and withholding tax on interest income*" (Vichyanand, 2000:8). The BIBF later extended credit availability nationwide, once the government approved the creation of branches across Thailand in May 1994.

Further to this, the Securities and Exchange Act was passed in May 1992. Whilst there were many other reforms in banking policy, this, in conjunction with the establishment of the BIBF, played a major role in the economic boom of the 1990s. This new act entitled limited companies to issue common stock and debt instruments, such as bonds, to gain access to equity finance. As a result, foreign investment

[5] To fully understand what relationship banking is, see Arnold Boot's 2000 paper 'Relationship Banking: What do we know?' in *Journal of Financial Intermediation 9*, pages 7-25.

flooded into the Thai financial system. "*In 1993, the inward flow of portfolio capital leapt to over ten times the average of the past five years*" (Phongpaichit, 1996:39), and "*in six years the number of listings had risen from 141 to 370 and market capitalization from 234 to 3,297 billion Baht*" (ibid.). With new sources of capital, and easy access to foreign finance through the BIBF, Thai domestic firms were awash with funds. "*In 1989 the commercial banks' net borrowings abroad were only 15 billion Baht. In 1994, with the advent of offshore banking, they jumped to 545 billion*" (ibid.:40). Table 2.1 below highlights the extent of the growing government debt problems.

	1992	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
Domestic Debt (Baht bn)	278.9	296.0	293.6	311.0	322.6	325.5	727.5	1,075.0
Central Government	202.7	161.1	103.2	72.7	44.3	31.8	426.9	642.2
State Enterprises	76.2	134.9	190.4	238.3	278.4	293.8	300.6	432.6
Foreign Debt (US$ bn)								
Public Sector	13.1	14.2	15.7	16.4	16.8	17.2	20.3	23.7
Monetary Authorities	-	-	-	-	-	7.2	11.2	12.8
Total (Baht bn)	**611.5**	**655.5**	**689.6**	**720.5**	**749.4**	**1091.3**	**2037.2**	**2461.5**
As % of GDP	***21.6***	***20.6***	***19.0***	***17.2***	***16.3***	***23.1***	***43.9***	***52.5***

Table 2.1: Levels of Government Debt 1992-1999
Source: Bank of Thailand, cited from (Phongpaichit, 2000: 227)

Thailand was developing at a phenomenal rate, with GDP in 1977 at US$19.8 billion, increasing over eight-fold to US$166.5 billion in 1995[6]; the growth rates of 1994-2004 are indicated by Chart 2.1 below:

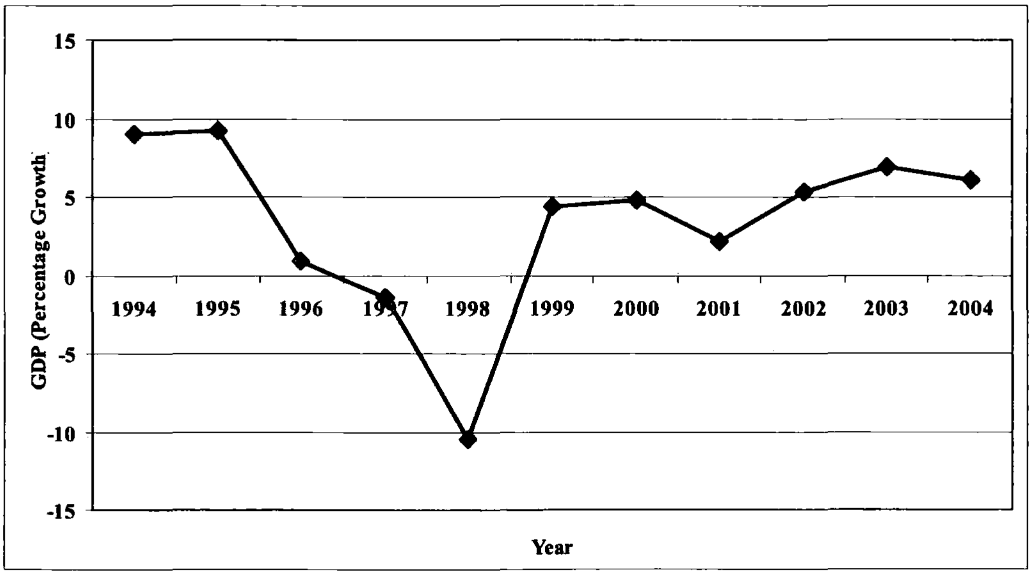

Chart 2.1: Thai GDP Growth 1994-2004
Source: Bank of Thailand

[6] Source: Euromonitor, *International Marketing Data and Statistics 1997*

To put this level of growth in perspective, between 1980 and 1990 the share in developing-economy exports accounted for by Asian economies more than doubled, from 21.1 percent to 56.3 percent. Investment as a percentage of GDP, in Asia, fluctuated between 15 percent and 25 percent. Between 1988 and 1996, Thailand attracted approximately $10 billion per year, cumulatively amounting to over 50 percent of its 1995 GDP (Khan, 2004). Predictions published in the 1996 Eighth National Development Plan forecast that by 2020 poverty in Thailand will be reduced to less than five percent of the population, and that the Thai economy will be the eighth largest in the world.

The focus on export-orientation was persistent and in September 1993 the government established the Export-Import Bank of Thailand, again demonstrating its commitment to the programme of reform (Vichyanand, 1998:7). Further capital market reforms took place in 1993-4, with the introduction of a credit rating agency for listed corporations, 'Thai Rating and Information Services', and eventually technological capabilities facilitated financial transactions electronically with the creation of BAHTNET and THAICLEAR, electronic clearing networks (ibid.).

The structure of the financial sector was heavily impacted by these radical reforms, and commercial banks conceded 6.5 percent of the share of household savings between 1989 and 1996 to finance companies and savings co-operatives. The share held by the Government Savings Bank fell from 8.80 percent to 5.20 percent during the same period. Commercial banks switched focus to fee-based activities, and endeavoured to cut operating costs in order to compete.

Nonetheless, liberalisation and the Securities Act of 1992 meant the occurrence of banking events that the Thai banking sector had not seen before: surging investment spending, market speculation and current account deficits, not least of all imprudent, expanding credit availability and reduced risk aversion (Vichyanand, 2000). Thai commercial banks and finance companies were under extreme pressure. In many cases firms sought financing from abroad from developed countries who were able to cope with their demands. This was facilitated by the fixed currency peg, eliminating any exchange risk, and the additional benefits of the BIBF. Inevitably external debt became a huge problem, reaching US$94 billion in July 1997, from only US$29 billion in 1990, which equates to total external debt outstanding representing 59 percent of GDP, from 34 percent respectively (Vichyanand, 1998).

Banking failures are argued to be some of the principle causes of the 1997 crisis. Most of these failures were driven by the intensely competitive market that had emerged since liberalisation, in which few local firms could successfully keep up. For those that could not, the Bank of Thailand provided financial assistance. This was one flaw in the banking sector which greatly undermined the workings of the market system. By offering help, the Bank of Thailand was merely subsidising firms with low quality assets, and excessive credit liabilities and non-performing loans. To a certain extent the sector was over-banked with poor quality financial institutions and insufficient liquidity.

Further pressure was exerted on the banks due to the increasing burden of foreign debt. This was particularly important, as from 1995, the US dollar, against which the Baht was pegged, had begun to appreciate significantly. In the two years before the crisis, the US dollar had appreciated 28 percent against the Deutschmark, and 38 percent against the Yen. As a result, the Baht surged in value also, which given the level of its current account deficit, and the increasing fragility of the banking sector, only weakened the Thai export market, and compelled investors to invest more cheaply in other foreign currencies.

The devaluation of the Baht was inevitable, with the cost of defending the over-inflated currency wiping out all of the Bank of Thailand's foreign reserves. Many foreign financial firms famously benefited from this, such as George Soros' Quantum Fund, who some argue induced speculative attacks to pre-empt the devaluation. However domestically, the impact of both the devaluation, and the collapse of the asset bubble which had developed over the previous decade, caused major damage to Thai banks. With many investments imprudently tied up in real estate, whose values had evaporated over night, non-performing loans (NPLs) surged.

The banking sector again underwent reshaping, with the creation of government restructuring firms to take over ailing banks and finance companies, such as the Financial Sector Restructuring Authority, the Asset Management Corporation and the Property Loan Management Organization. Fifty-six finance companies were ordered to close by the government, although speculators believe this was prompted by the IMF upon their arrival in July 1997. On the closure of these firms, the Bank of Thailand adopted their debts, providing guarantees for both their creditors and their debtors. This effectively shifted the debt burden away from the private sector and onto the government.

The IMF's rescue package of 1997 was conditional on the reform of the financial system, as well as fundamental reforms in other sectors. The key financial sector reforms were "*adoption of international standards for asset clarification, loan-loss provisions, capital adequacy, bankruptcy, and deposit insurance*" (Vichyanand, 1998:30). These have been implemented with varying degrees of success, due to a variety of factors explained in subsequent chapters. The banking sector in Thailand today is vastly different from the antiquated system in place before the crisis. Thai banks are increasing in size, value and the number of facilities they offer, to the extent that they are able to compete fairly with the foreign banks in Thailand and around Asia. Some Thai banks now even have overseas branches in the US and Europe, for example the Siam Commercial Bank. However some have also failed to overcome the NPL issue after the crisis, and mergers between state-owned banks haven't always been successful, the Krung Thai Bank being a good example of this. This is looked at in more detail in Chapter 7.

Much has been written on the changing shape of the Thai financial system; however insufficient attention has been paid to the policy implementation within it. Closer analysis will provide answers to some of the key broader questions governing this research, such as 'to what extent have banking policies prescribed by the IMF been implemented directly and efficiently by the Thai government?', and 'what have been the consequences of re-worked banking policies within Thailand, in economic, political and social guises?'

Nevertheless, the sector is still evolving and reforms are on-going. This will be discussed much later in the concluding chapters. The lessons to learn from liberalising an economy, of which financial liberalisation is an integral part, are numerous. There is no 'quick-fit' model to suit any country, and each case study, be it Mexico, Thailand, Russia or more recently Argentina, reveals this clearly.

2.4: Conclusion

This chapter has looked in detail at three fundamental parts of the crisis history, of which an understanding is vital to fully appreciate the context of the following research. The theory behind the Washington Consensus helps to explain the rationale behind many of the IMF's policies; these will be scrutinised in Chapter 4. Understanding the legacy of IMF involvement in Thailand also helps to illustrate the bigger picture of the crisis, by considering the role of IMF policies in the initial boom period experience in the early 1990s, and not just in the recovery stages of 1997-2000. The banking sector will be a central focus of this research, as a case study of specific policy implementation. To fully value the crisis-related reforms in this sector, as discussed in Chapters 5, 6 and 7, it is imperative to recognise the characteristics of the pre-crisis banking sector, as outlined in this chapter.

The three subjects discussed in this chapter represent only a fraction of the issues drawn out of the Asian crisis. The objective for this chapter is to provide an overview of the three key issues governing this history of the Asian crisis, and the role of the IMF, of which an understanding is required to fully appreciate the outcomes of the following research findings.

The first chapter concerning this debate is Chapter 4, which looks more closely at the issue of policy appropriateness. Previously it was mentioned that substantial criticism exists regarding the extent to which the IMF's policies were sufficiently tailored to the crisis faced in Asia, and more specifically Thailand. This chapter will also aim to demonstrate that successful changes in the banking sector have predominantly been internally driven by banks, and not state-, nor IMF-directed. The following chapter will consider the methodology required to investigate the answers to the research questions.

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THE METHODOLOGICAL CHALLENGE

The East Asian crisis is almost eight years old. It is arguably the most important event in Asian economic history. A plethora of documentation, literature, analysis and debate has been produced pertaining to the events of the late 1990s. Typing 'the East Asian crisis' into Google[1] returns 3,950,000 results. This perhaps signals that the impact of this issue is vast. There is not one conclusive report which condenses the event to a few points of discussion, nor a few 'lessons learnt'. The crisis offers no text-book analysis of economic policy, no case-study of 'what not to do'. The particulars of 'what happened?', 'why?' and 'who is to blame?' are still some of the most contentious in modern economic history.

Narratives of the crisis are have evolved over time. The stories told shortly after the crisis scarcely compare to those told a few years later, and even today new information and new perspectives are being drawn. Competing interpretations of the crisis hardly facilitate piecing together the puzzle that is the chain of events, as there is no 'absolute truth' as to what happened. It is the role of the social scientist to amalgamate the accounts, to decipher meaning, and offer explanations. This can best be done using qualitative sources and comparing these with given empirical accounts. Rather than focusing on the East Asian Crisis in its entirety, this research, as outlined in the introduction, aims to focus on why International Monetary Fund programme reforms have not been efficiently implemented in the Thai banking sector.

3.1: The Methodological Challenge

The target seems almost unrealistic: given seven weeks in Bangkok, speaking no Thai and armed with a frugal budget, a representative sample of domestic and international views on the unfolding of the crisis and the events in the banking sector needs to be collected. This methodology chapter will outline the 'why's, the 'how's and limitations involved in gathering a wide spectrum of opinion, and will describe the issues related to my personal experience of carrying out qualitative research.

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According to the literature, qualitative research methodologies concern themselves with "*elucidating human environments and human experiences within a variety of conceptual frameworks*" (Winchester 2000: 3-4). Indeed there are multiple contrasting methodologies associated with qualitative research in human geography, as "*contemporary human geographers study places, people, bodies, discourses, silenced voices and fragmented landscapes. The research questions of today's human geographers require a multiplicity of conceptual approaches and methods of enquiry*" (ibid.:2).

Yet by far the most popular qualitative research method of enquiry is the interview. Briggs (1986) indicates that of all social science surveys, in excess of 90% relied on interviewing for their data collection, in order to "*explore the feelings, understandings and knowledges of others through interviews, discussions or participant observation*" (Dwyer and Limb 2001:1). Holstein and Gubrium state that interviews provide "*windows on the world*" (1995:2).

[1] Google – The internet based search engine; search ran on Tuesday 10th May 2005

This research requires a thorough understanding of processes and interpersonal communication. These cannot be assessed quantitatively and equally, cannot be fully evaluated by many other forms of qualitative research methodologies, such as surveys or participatory research. To achieve a comprehensive appreciation of past occurrences, decisions and atmospheres, there is a need to question people who experienced the reforms under debate; hence interviewing is central to this research.

3.2: To interview, or not to interview?

Whilst interviewing seems to provide a logical solution to the methodological challenge presented by this research, it does have its complications and disadvantages. Interviewing as a methodology is documented in a wealth of research literature, concerning interview processes (Gorden 1969, McCracken 1988, Oppenheim 1993, Rapely 2004), questioning (Dilley 2000, Douglas 1985, Fontana 2000, McCormack 2004), interview analysis (Brenner 1985b, Cawthorne 2001, Mostyn 1985) and positionality (Briggs 1986, Johansen and Steele 1999, Oldfield 1947, Schmalz 2000). This section endeavours to give a brief overview of the benefits and disadvantages associated with interviewing as a research methodology. By no means is this discussion exhaustive, however further treatment is offered by the aforementioned sources, and many more besides.

Described as "*a conversation with a purpose*" (Eyles 1988), the interview can be a rich resource of qualitative data; data which is unreachable with alternative methodologies. It provides the opportunity for personal accounts of events, and allows the researcher to engage in '*wide-ranging discussion*' (Flowerdew 2005). Unlike questionnaires, interviews permit the researcher to investigate themes thoroughly, rewording and clarifying questions, rather than providing standardised lines of interrogation, and thus providing '*a deeper picture*' (Silverman 1993, 2001). Silverman also highlights the additional benefit that interviewees themselves may raise issues of debate which the researcher may not have anticipated (Silverman 1993, 2001).

Interviews also allow the researcher to deal with cultural differences and language barriers. These issues cannot always be addressed with questionnaires, or written communication, as respondents may not be able to read or understand. In the most difficult of scenarios, interpreters can be used to help. This very personal approach is also important when dealing with delicate issues, which questionnaires or correspondence-based questioning may not give enough sensitivity to. Some issues may not be particularly sensitive, but may be complex, and interview time gives respondents the opportunity to communicate information they may not otherwise be able to.

'*To avoid bias, the interviewing must be done non-directively. That is, the interviewer, whatever questioning technique he/she may be using, must leave it entirely to the informant to provide answers to questions.*' (Brenner 1985a). This is critical if the data are to be reliable, yet Watson and Weinberg point out the impossibility of interviewer neutrality, '*however, actually 'being neutral' in any conventional sense is actually impossible – interviewers are always active*' (Watson 1982). This point of view is upheld mainly by humanist geographers, and those from the post-structuralist school, who believe that complete objectivity in research is almost impossible to attain. Thus, when considering the extent of objectivity in research, one must take into account the impacts of reflexivity and positionality.

As a social scientist engaging in in-depth interviews, it is imperative to remember that one's own identity will play a role in shaping the interaction with the respondents. This is where interviewing becomes a very sensitive process, much more so than questionnaire surveying. As Oppenheim elaborates:

> '*each interviewer must realize...that she creates an immediate impression on a potential respondent even before she opens her mouth, and that this impression may determine the success or failure of an interview or whether an interview takes place at all. If an interview does take place, then the first impression made by the interviewer will be augmented by her apparent age, her hair style, her ethnicity, any cues about her education and social background, and, of course, her sex in short, her whole 'presentation of self' will have an influence on her respondents*' (1993).

The role of positionality has become increasingly popular in qualitative research debate (England 1994, McDowell 1992, Mohammad 2001, Morris-Roberts 2001, Schoenberger 1992).

McDowell stresses the importance of positionality, "*we must recognize and take account of our own position, as well as that of our research participants, and write this into our research practice rather than continue to hanker after some idealized equality between us*" (McDowell 1992:409). How positionality affected this research project will be discussed shortly.

3.3: To record, or not to record?

Reality television-shows today illustrate the changing role of an individual when placed in front of a camera. Whilst videoing an interview allows one to capture body language and voice tones, it influences behaviour; taping interviews does also have a similar effect. Taping requires permission from informants, and they may be less likely to impart certain information should they believe that one will '*misuse the information as this is a 'permanent record' that they could be identified through at a later point*' (Rapely 2004). It is vital to remember that "*the respondent's right to privacy and the right to refuse to answer certain questions, or to be interviewed at all, should always be respected, and no undue pressure should be brought to bear*" (Oppenheim 1993). This is especially important in this research, as many of the questions ask for possibly controversial opinions on politically volatile topics, the sensitivity of which is enhanced by the timing of the interviews, during the Thai 2005 elections.

Gorden asserts, "*the task of accurately receiving information can be broken down into several specific skills. It involves (a) accurately hearing what the respondent has said, (b) observing the respondent's non-symbolic behaviour, and (c) remembering information received*" (Gorden 1969). This is made harder without a taping facility, yet the essence of the interviews will be of greater importance to this research than individual words and statements, and thus trading-off encouraging the respondents to speak more freely, recording will serve no net-benefit. The consequence of this is that effective and efficient note-taking is vital to the data collection.

Schoepfle and Werner discuss the benefits of ethnographic debriefing as a tool to complement interviewing '*in situations or descriptions of events in which recording is not possible or permitted*' (Schoepfle and Werner 1999). They explain the process of self-debriefing as an aid to providing '*valuable contextual information that often cannot be obtained any other way*' (1999:163), whereby the interviewer records details of the sequence of events, and the context in which the initial interview was conducted, and then, with use of hand-written notes taken during the interviews, can go on to develop a better account and analysis of the details within it. I adopted this in conjunction with preliminary memory training, improving memory recall, as outlined by Werner in his 1999 paper. This also links to Alexiadou's notion of creating a post-interview transcript, which '*involves deconstructing the interview, trying to make sense of meanings, and then re-constructing the data into the form of an account*' (Alexiadou 2001).

3.4: Interviewing: An Effective Methodology?

There are many different styles of interviewing, however having assessed the areas that need probing and the type of information required from the interviews, it became apparent that a form of interview structure is required and well-researched questions would need to be asked. Semi-structured interviewing was identified as the most appropriate technique to adopt, defined as "*an interview agenda shaped by the operationalization of the research questions, but retaining an open-ended, and flexible nature. The intention is to allow the interviewees to 'define' the situation on the basis of their own experience and so to focus on what* they *consider relevant*" (Alexiadou, 2001:1).

To ensure that the interview time was most efficiently used, Kvale's advice was taken, recognising the importance of preparation. He outlines three resources required to increase the likelihood of a successful interview. Firstly he discusses the benefits of sufficient time. This refers to the amount of time available to a researcher for their study, and equally the amount of time the respondent will have to give, as these both play critical roles in the quality of an interview. In line with this not only are the interviews organised after sufficient background research, but the interviews have a duration of one hour – enough time to accommodate planned questions and also adequate time to stimulate discussion.

Secondly he explains that funding is also influential for many reasons, yet principally it constrains the quantity and quality of interviewees by limiting access to them. In this research it is extremely important as the key individuals concerned are predominantly based in Bangkok in Thailand. Travelling to, and spending sufficient time in, Bangkok, facilitating such interviews, incurs a large expense. Financing also restrains the ability to access information, confining the scope of secondary resources used in both the planning of interview questions and analysis of interview results. Budget constraints have therefore been a significant limitation to this research.

Kvale's third point is perhaps his most important; the role of expertise. He states "*good interviews require expertise – in both subject matter and human interaction*"

(Kvale 1996:103). Under-preparation pertaining to subject matter can be very apparent in the questions asked by the researcher, and the channels they choose to follow. If the respondent is very knowledgeable, a lack of expertise will be obvious to them and this will likely influence the information given or the extent to which they will be willing to help. In the worst case, the researcher may not be aware that their line of investigation might not provide the correct answer to their underlying research question. This research uses secondary literature resources to develop the questions for the interviews, ensuring that both the right questions are posed, and to the right people. This is demonstrated by the interview checklist, Table 3.1, below.

Institution Type	Institution Name	Name of Interviewee
Government	Bank of Thailand	Anonymous (1)
	Bank of Thailand	Anonymous (2)
	Democrat Party	Professor Kriengsak
Domestic Bank	Siam Commercial Bank	Dr Veerathai Santiprabhob
Foreign Bank	Citigroup	Tohphan Tuchinda
NGO	Focus on the Global South	Chanida Bamford
	Focus on the Global South	Soontaree
Civil Society	Democratic Confederation	Weng Tojirakarn
Research Council	TDRI[2]	Dr Pakorn Vichyanand
	TDRI	Dr Chalongphob Sussangkarn
Local Press	Bangkok Post	Miranda Schoonavelt
	The Nation	Anonymous (3)
Academic	Chulalongkorn University	Thitinan Pongsudhirak

Table 3.1: List of interviewees and their respective institutions

People management, with professionals, students or senior academics, requires a multiplicity of social skills. Experience in this field is a key determinant in both finding participants, and indeed is also critical during the interview itself. To ensure this is not a constraint, processes developed by other successful researchers were employed, and relationships with interviewees were fostered over time. The latter was aided by sending out interview questions in advance of interviews, to allow the respondents to comprehend the line of research, and accordingly develop their answers and opinions. Indeed, to facilitate the interviews further for the respondents, the interview locations were at their convenience, ensuring the process was as straightforward for them as possible.

In order to reduce issues of positionality, various methodological precautions need to be taken. The attire for the research interviews was formal, as most of the respondents were high profile bankers, politicians, or academics. This professionalized my appearance to ensure I was taken seriously. This is important as I would have been judged as a young, white, European female, however exactly how this bias affected my interview data is impossible to assess. Equally bias results from respondents too, who represent various organisations and whose thoughts and views have been shaped by their backgrounds and educational history. To ensure a representative range of views, I have selected my interviewees from a variety of

[2] TDRI: Thailand Development Research Institute

institutions, ranging from Government, banks, to civil society groups and charities. The onus is then on me as a researcher to analyse their views and experiences accounting for their personal attributes, such as employment or academic background.

It is important to recognise bias occurs outside of the interview as much as within it. Content analysis, like the interview process as a whole, is subject to flaws, misinterpretation, and subjectivity. This undermines Gorden's definition of reliability, as stated earlier, but it is crucial to recognise that different researchers, no matter how impartial and objective, will always influence the elucidation of their research findings. Crang (2001) learnt from his own research that "*any idea that interpretation was passive or transparent was quickly dispelled by the graft involved. I could hardly claim that the products were pristine or 'untouched'*" (Crang, 2001:224). It is therefore important to corroborate my findings with existing empirical facts, derived from my secondary resource database.

3.5: Interviewing in Bangkok

Despite thorough planning and background research into the technique of successful interviewing, actually implementing a methodology in the field invariably involves constraints, limitations and resulting methodological adaptation. This section will discuss how different the process was when interviewing in Bangkok, and how I dealt with practical difficulties when collecting my interview data.

Before arriving in Thailand I had failed to fully appreciate the role of culture in undertaking research in a foreign country. Thai culture is very complex and impacts on day-to-day activity in ways I had not fully appreciated. Before even arranging interviews, let alone carrying them out, I encountered the issue of communication. In Europe it is standard practice to receive emails and respond accordingly. Indeed electronic communication is now one of the most practised forms of communication in many societies. In Thailand however it is not unheard of to never receive replies, even if questions have been sent, or organisational matters have been queried. As a result much of my interview organisation was done by telephone in the first week of my arrival in Bangkok. This obviously meant no interviews could be organised in the first week of my fieldwork, which added greater time pressure to data collection.

The second communication issue that arose was more obviously my lack of facility with the Thai language. Not only is this a limitation to the overall research project, as it inhibits my potential interviewees, as most workers, peasants and businessmen don't speak English, but it was also an organisational hindrance. In many cases high profile individuals who did speak English often had non-English speaking secretaries, or switchboard operators. More often than not I was eventually put through to an English-speaker but in the worst cases Thai speakers at the university I worked at explained my requirements in Thai, and arranged the meetings for me. This problem restricted access to important individuals. Access was also restricted logistically, with many key respondents in difficult locations to reach, and many local taxi drivers were unfamiliar with particular areas. Language barriers again played a role, as few taxi drivers spoke English, and in many cases individual addresses would need to be written out in Thai before I could embark on such journeys. In many cases I could work around these issues, and table 1.1 shows the list of people interviewed. These interviewees are representative of the most prominent institutions involved in banking sector reform, as indicated by extensive secondary research.

Once in contact with the individuals, the planning generally worked well. In all cases I was able to have at least an hour of the respondents' time, and they had all read the questions in advance of the interview, and there was little problem in understanding, which was important to ensure reliable responses. Most individuals interviewed empathised with myself as a student researcher, and I feel that my identity in no way obstructed the information I received. However this highlights that most English-speaking representatives were well educated and of esteemed background, thus inferring that linguistic constraints severely affected the extent of fair-representation of excluded groups, who didn't fit this category, yet may have been useful contributors to this research. This is where I believe the press and other print resources, which reflect views of excluded groups, play an important role in balancing my research.

Since there were cases where the interviewees requested anonymity, I believe it was important that I had not chosen to record interviews. Most respondents were keen to give their views, regardless of how sensitive, or extreme, but often they reinforced that they didn't want any lasting traces of our conversation to be made public. For those who did use electronic communication, much conversing was done via non-corporate email accounts so that they could reduce the risk of being traced.

3.6: Secondary Resources: Supporting Findings

Secondary literature necessary for an appropriate evaluation of the Thai economic crisis, the reforms, localised opinions and processes, can be subdivided into three types. The first secondary literature subset is academic literature, written more theoretically, with viewpoints derived from academic backgrounds, and in many cases within the intellectual milieu of Western scholarship. This will include a variety of Thai and international literature, however as for all my literature analysis, this will be limited to literature written in the English language.

The second subset of literature is that of the domestic and international press. For the period of 7 weeks, throughout my research period in Bangkok, the English language press was the focus of my 'on-the-ground' analysis, reporting throughout the election campaign on reform and post-crisis developments. The *Bangkok Post* and *The Nation* are the two sources, with *The Nation* having a reputation of being the more liberal paper. The benefits of using local press reports are important. Firstly, they represent current public opinion, or a subset of it, in the face of topical political discussions, and secondly they are more emotive than academic literature, and perhaps capture a better sense of atmosphere and attitude, than facts and theoretical arguments. They also offer current statistics, and interviews and opinions from key individuals I myself was not be able to interview.

Finally 'grey literature' is also involved in this research. Unpublished works of various academics regarding this research topic have proved very useful, as will be discussed in the analysis of the research findings. Other documentation, such as in-house company publications and presentation slides, has also been collected, and provides information not publicly available, on the role of the crisis and reforms and how they influence the way banks are run.

As the secondary resource dataset is critical in shaping my interview questions, helping evaluate who to interview and authenticate facts, I will differentiate data sources to balance viewpoints. It is important to understand papers and discussions put forward by domestic, as well as international writers, reflecting a range of different schools of thought. Institutions such as the International Monetary Fund and the World Bank will also have their views represented alongside Asian social welfare non-governmental organisations (NGOs), such as Focus on the Global South, and the Thai-based Democratic Confederation.

As discussed earlier regarding interviewing, the secondary resources are subject to limitations, which play a role in shaping my conclusions. Issues of time and accessibility mean that not all resources are available to me at ease, with most of the key resources scattered around both the UK, and more restrictively, some are only available in Thailand. Indeed as discussed earlier, funding too is a key constraint. Thus my secondary resource dataset is not a measure of all the current related texts available, and by no means reflects a comprehensive set of opinion-diversity, but at least attempts to, given the research boundaries which govern this research.

In the field accessing libraries varied in difficulty due to appropriate identification issues (not being a Thai student). Often language barriers complicated research findings, with some libraries being 'closed shelf' and library personnel not always having even a rudimentary understanding of English. Some libraries had very limited opening hours, and in others access to some documents was only possible after paying a fee.

3.7: Conclusion

Designing the methodology of a research project is critical; it shapes the data from which one draws conclusions. The aim of this chapter was to demonstrate the great lengths taken to ensure a suitable and well-researched methodology, learning from other social scientists' work and advice. This chapter also explained how things needed to adapt once in the field.

I believe that the methodology outlined in this chapter proved to be appropriate for the research project, and any constraints were worked around. With these methodological issues and limitations in mind, I hope to demonstrate that my datasets shed light on the informational, political and cultural constraints on implementing banking reforms in Thailand after the 1997 collapse of the Thai Baht.

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ONE SIZE DOES NOT FIT ALL

"*For too long the IMF has gone about its business, dictating economic policy to any country unfortunate enough to need its money, without any inclination to engage in open debate about what it does, how it makes decisions, and whose interests it is serving.*" (Masina, 2002)

One of the more common critiques of the International Monetary Fund (IMF) questions the suitability of the conditions included in its recovery packages provided to countries in crisis. The citation above from Masina portrays a common sentiment that the IMF acts like a 'black box' into which vast streams of information and funding are channelled into it, producing unexplained generic policies. Robert Kuttner famously described the IMF as '*the premier instrument of deflation, as well as the most powerful unaccountable institution in the world* '(cited in Johnson, 1998:653). This chapter will consider the following questions: to what extent are IMF policies and conditions tailor-made to each situation? How did the IMF 'tailor' their policies to the Thai situation and to what extent were they 'suitable' policies for Thailand? This chapter will also investigate whether the policies implemented in the Thai banking sector were properly followed through, and how this impacted the fragility of the banking system.

4.1: 'One Size Fits All'

"*IMF-supported programs are probably the institution's most visible activity and affect a wide range of countries. Over the last decade, with the decline in communism and the deepening of economic crises in many emerging market economies, some 90 countries have become involved in various IMF-supported economic adjustment programs*" (Ramcharan, 2003:1). The IMF should have had much experience of diagnosing crisis causes and equally of designing recovery packages. However as demonstrated in the previous chapter, not all crises are the same, and thus individual attention is required in each case to provide specific country-sensitive solutions.

IMF research papers do emphasise the importance of country-specific programme design. In their 2002 paper '*IMF-Supported Programs in Capital Account Crises*', which assesses eight capital account crises of the 1990s, Ghosh et al. state "*given the differences in their origins, IMF-supported programs in capital account crisis were confronted with challenges that differed considerably from those of more traditional IMF programs*' (Ghosh et al., 2002:1). The paper also highlights awareness of the 'one size fits all' critique, as it considers whether '*the crisis cases raise issues of whether the policy response in the context of IMF-supported programs took adequate account of what was distinctive about these crises*' (ibid.).

The IMF does have a 'traditional' 10-point plan for bank crises, made up of an acute crisis phase (measures to stop panic), a stabilisation phase (restructuring), and a recovery phase (normalising the system). This is very much at the heart of all the programmes it implements (IMF, 1999:6). Whilst the IMF acknowledges that this 10-point plan is the keystone of their crisis recovery policies, they are keen to show that individual response plans are developed as a result of interaction with local authorities, and after careful analysis of the given situation. In light of the Asian crisis the IMF underscores that '*although the IMF was able to draw on both its past experience and its analytical work, the specific circumstances of each country added dimensions that required careful tailoring of the reform and resolution strategies for each country,* *often taking into account the authorities' sometimes strong preferences*' (IMF, 1999:7).

The extent of IMF tailoring and success of their plans are nonetheless heavily criticised by many prominent economists: '*structural adjustment caused economies to 'fall into a hole' wherein low investment, reduced social spending, reduced consumption, and low output interacted to create a vicious cycle of decline and stagnation, rather than a virtuous circle of growth, rising employment, and rising investment, as originally envisaged by World Bank-IMF theory*' (Bello, 2000:3) Even the IMF themselves agree there would be less debate about their role in the global economy if their programmes had more clear-cut success (Ramcharan, 2003). Perhaps what makes this issue even more sensitive is that many critics talk of the IMF 'dictating' such policies, where the crisis countries have little say or influence in designing their own reform packages. As Stiglitz explains, '*the IMF is not particularly interested in hearing the thoughts of its "client countries" on such topics as development strategy or fiscal austerity. All too often, the Fund's approach to developing countries has had the feel of a colonial ruler*' (Stiglitz, 2002: 40).

Some critics seek to explain the lack of suitability of the IMF's policy design by inferring that the IMF has a hidden agenda: '*the US response to the crises, inherent in IMF policy, has been to liberalise trade, deregulate financial markets and enhance disclosure rules. All, by happy coincidence, coincide with the broader aims of US economic diplomacy in the region*' (Higgott and Phillips, 1999). Some critics go so far as discussing the idea of a conspiracy theory behind the Asian crisis; this is best discussed by Bello (1998).

Higgott and Phillips discuss the 'textbook' nature of IMF policies, with models being at the centre of their policy initiatives, even though many are based on unrealistic assumptions,

> '*The conceptual biases inherent in the IMF's treatment of Asia are already apparent in its emerging Latin American strategy, and the IMF certainly has not altered its approach in response to its experiences in Asia. What is needed, Latin Americans increasingly argue, is a novel approach to global financial and economic governance which displays flexibility and imagination -- 'intelligent solutions', in short, 'even if they don't feature in Economics books'. The present approach of the IMF and the US government departs almost not at all from the line they have been peddling for the last decade*' (Higgott and Phillips, 1999:40-41).

Arguments regarding unsuitable policies also take the contrasting view that in fact the textbooks were required, simply because the steps taken by the IMF were so lacking in common sense, '*why did the high-powered economists near the top of the IMF and the Treasury, as soon as they encountered a crisis, throw away the textbooks indeed, do almost the opposite of what the textbooks would have suggested?*' (Krugman cited in Naim, 2000). Here, Krugman infers that fundamental economic theory suggests measures, such as floating the exchange rate and allowing flexible rates of interest, which would have eased many of the problems which exacerbated the economic and social downturn. For example, flexible interest rates would have made debt burdens for bankrupt firms and individuals much less painful than they were. These implications suggest almost a sense of panic on behalf of the IMF; the IMF plan these market-friendly initiatives but as soon as a crisis hits, they abandon all the books and theories they had previously clung to, implementing recovery programmes based on entirely different logic. This lack of consistency, which Krugman argues is more a lack of common sense, does little to restore confidence in the work of the IMF.

Regardless of the exact line of attack, the conclusion to draw from these well-publicised critiques is that whilst debate still continues over what exactly is wrong with IMF policies, the consensus remains that they are definitely not suitable for salvaging ailing economies in crisis. This is obviously in direct contradiction to the views of the IMF, who publicly declare that their policies are custom-made to each crisis.

4.2: Thailand: Made to Fit?

'*Stiglitz accused the Fund of seriously misdiagnosing the nature of the East Asian crisis and of continuing to design conditionality as if one size fitted all. He argued that Fund conditionality had a perverse effect and came close to suggesting that the Fund was incompetent and closed to criticism, even when it came from the World Bank*' (Bird, 2001).

The East Asian crisis has become one of the most common examples used in critiques of the IMF. Many argue that the policies implemented and the behaviour of the IMF directly contradicts the claims made by the IMF about their dedication to tailor-made reform packages, country-specific expertise and advice, and their claim to work with and listen to national agencies. What is also both surprising and extremely important, is the high profile of the key critics of the IMF, such as former Chief Economist at the World Bank, Joseph Stiglitz, and the prominent Professor in International Trade at Harvard University, Jeffery Sachs – renowned as a 'transition guru'. However, if the East Asian example is so important in challenging the claims of the IMF, then to what extent did the IMF really tailor their recovery programme to national characteristics and exigencies?

The IMF emphasises that '*strategies must be adapted to fit countries' circumstances. Systematic bank restructuring is a complex medium-term process that requires careful tailoring*' (IMF, 1999:5). In my interview with the Bank of Thailand, their representative spoke of the composition of the IMF team which came to implement the Thai reform package; '**they have 'area departments' and so the fund sent people who knew Thailand, and were country specialists. Area departments are split by geographies, and have desk economists. This was important as the process needed to be tailor-made**' (Bank of Thailand Interview, 2005). The representative continued to describe how the IMF team was made up of senior IMF executives, such as Hubert Neiss, director of the Asia and Pacific department at the IMF who later stepped down from this position in 2000, as well as his team of 'Thailand specialists', all of whom arrived dressed in intimidating formal suits in an atmosphere of significant tension (ibid.).

Despite these claims, there is an overwhelming array of critics of the IMF's role in Thailand. Even the Bank of Thailand representative contextualised the 'tailor-made specialist team' of the IMF, stating '**admittedly when the process started it was the**

stereotypical belt-tightening associated with the fund. Hence the anecdote "IMF: Its Mostly Fiscal" - their policy is always fiscal belt-tightening' (Bank of Thailand Interview, 2005). Upon asking about the exact procedure of these discussions I was told '**the meetings were not chaired. The IMF set the agenda. They presented their policy options and gave the Bank of Thailand the chance to comment on them. The IMF stressed the need of international credibility, and thus upon queries by the Bank the fund reminded them that they needed to convince the international community that Thailand was determined to reform and adhere to strict policies expected by the rest of the world, and thus although the Bank may have not liked all the policies, it was important they undertook them to regain international credibility**' (ibid.). This certainly presents the case that there was indeed very little 'discussion' between the Bank and the IMF, with the IMF implying that without following their painful recovery programmes, Thailand would not regain credibility. This is completely contradicted by the success of Malaysia, now a booming economy growing at 7.1% in 2004 (GDP estimate[1]) with few scars left by the crisis – all without any IMF intervention.

These reports are supported by Joseph Stiglitz, as he makes very clear his opinion of the IMF's policies in East Asia with his chapter title '*The East Asian Crisis: How IMF Policies Brought the World to the Verge of a Global Meltdown*' in his book '*Globalisation and Its Discontents*'. Stiglitz demonstrates the extent of dictating adopted by the IMF, in accordance with the Bank of Thailand's evidence, when imposing their reform package, '*officially, the "ceremony" was the signing of a letter of agreement, an agreement effectively dictated by the IMF, though it often still keeps up the pretence that the letter of intent comes from the country's government!*' (Stiglitz, 2002:41), and he continues '*the IMF, of course, claims that it never dictates but always negotiates the terms of any loan agreement with the borrowing country*' (ibid.:42). In light of the above accounts of the exact proceedings between the Bank of Thailand and the IMF it is easy to see why Stiglitz finds these claims so farcical.

Many critics argue there was nothing 'new' nor 'custom-made' about the policies prescribed by the IMF for Asia,

> '*IMF prescriptions for the Asian rescue drew on a western understanding of liberalisation, involving packages of domestic austerity and financial restructuring intended to cut demand and liquidity. As such, they were not new. They were tried and tested initially in Latin America and Africa where the principal economic ills were large budget deficits, high inflation and massively indebted public sectors*' (Higgott and Phillips, 1999).

In an interview with Dr Kriengsak, the Executive Director at the Institute of Future Studies for Development in Bangkok, he stated '**after considering the role of the IMF to monitor national fiscal and monetary policy that suffered in the crisis of 1997 and spread to Russia and Latin America later, my opinion was that the IMF had likely applied the same formative policy to every country that entered into the financial and academic aid programs of IMF**' (Dr Kriengsak Chareonwongsak, 2005). He uses this to suggest the potential for a conspiracy, as mentioned earlier, '**the IMF focused on inflation controls by implementing**

[1] Source: CIA World Factbook 2005

economic policies for shrinkage, which further led towards economic recession, and business bankruptcy due to loss of liquidity, and high unemployment...But the IMF still carried on as an instrument of the superpowers to coerce the member countries to operate the policy under Washington's consensus, which would later lead to takeovers made by multinational corporations' (ibid.). Dr Kriengsak thus appears to infer a 'hidden agenda' behind the actions of the IMF, which, as mentioned earlier, Bello (1998) touches upon in his work. A second point to be drawn from this comment is Dr Kriengsak's criticism of the overuse of anti-inflation policies, which he suggests worsened the state of recession; an indication that perhaps the IMF's recovery policies weren't necessarily appropriate.

Views of this nature are rife and, more importantly, are upheld by pivotal members of the academic community. Stiglitz points to the 'one-size-fits-all' approach as a seminal cause of the financial crises, with particular emphasis on the mismanagement of interest rates; Jeffery Sachs, former advisor to the IMF, World Bank, OECD and the UN, took this a stage further inferring the IMF endeavoured to create a favourable environment for short-term finance managers, again through the use of interest rates (Naim, 2000:33) – in line with Dr Kriengsak's opinion. Bird summarises the key lesson learnt as a result of this apparent mismanagement of the crisis: '*the policy response to a crisis needs to be based on a careful diagnosis of the underlying economic difficulties. In the Asian case failure to deal with the private sector debt overhang, and over-reliance on conventional macroeconomic policy instruments, has led to a deep and protracted decline in output*' (Bird, 1999). This again reinforces the opinion that insufficient attention was paid to the detail of the crisis, and that poor recovery measures only made the situation worse.

It is clear that careful appreciation of the exact nature of problems is required before drawing up recovery plans for ailing economies. This brief discussion has indicated that despite the IMF making very clear statements about the need for custom-made programmes, the programme undertaken in Thailand was reminiscent of those employed in Latin America, and demonstrated little sensitivity to the precise problems in the Thai economy. The high profile of much of the criticism of the crisis programme has been paramount to bringing renewed questioning of the exact role of the IMF. The implications of mismanaged restructuring programmes can be detrimental, and long-lasting. Discussion therefore must turn to how appropriate the programmes were, even though they were not necessarily designed with significant input from local agencies.

4.3: The right medicine?

Whilst public debate seems to suggest that the IMF did not necessarily tailor-make the majority of policies applied to the Thai recovery, the question still remains whether the policies which were applied were appropriate for the Thai economy. Did they solve the inherent causes of the crisis? Was the pain of the crisis eased by the shock therapy prescribed by the IMF? For many the answer to both of these questions is no.

Indeed as the crisis aged and the IMF's stabilisation policies began to infiltrate the economy, the unsuitability of such policies became clearer. It must be said that the definition of 'suitable' is very subjective, but it is fair to say that the extreme social consequences, and the over-deflationary impacts on the economy suggest that the reforms were far from 'ideal' for Thailand, and in many cases East Asia as a whole. Walden Bello of the NGO[2] 'Focus on the Global South' elaborates on this,

> '*It was the Asian financial crisis that finally forced the IMF to confront reality. In 1997-98 the Fund moved with grand assurance into Thailand, Indonesia, and Korea, with its classic formula of short-term fiscal and monetary policy cum structural reform in the direction of liberalization, deregulation, and privatization. This was the price exacted from their governments for IMF financial rescue packages that would allow them to repay the massive debt incurred by their private sectors. But the result was to turn a conjunctural crisis into a deep recession, as government's capacity to counteract the drop in private sector activity, was destroyed by budgetary and monetary repression. If some recovery is now discernible in a few economies, this is widely recognized as coming in spite of rather than because of the IMF*' (Bello, 2000:11-12).

Bird and Berger join Bello in the view that the visible consequences of the IMF's policies did not illustrate well-designed, customised reform strategies. Bird focuses on the recessionary problems, explaining '*it is also clear that these problems are being exacerbated by some of the policies taken to counter the crisis. In particular the high interest rates imposed in order to maintain international investor confidence (in Thailand and Korea short-term money market rates rose from around 12% before the crisis to nearly 20%, while in Indonesia money market rates reached 60% or more) have led to increased problems of loan repayment and further declines in domestic investment and consumption*' (Bird, 1999). With regards to social disruptions, Berger states '*the standard IMF crisis-management toolkit of fiscal stringency, reduced spending and the like, has caused massive social dislocation, of which the Bank, or more accurately, its current president, James Wolfensohn, has been a significant critic*' (Berger, 1998:75).

There were three major policies which were not only inappropriate, but destructive for the Thai economy.

The first of these were the contractionary fiscal policies. Why in an already declining economy, with no upward demand pressures, and government budgets in surplus, was there a need for deflationary policies, to further spiral the Thai economy into recession? The only consequences of these policies were the collapse of the stock market, real estate asset prices and the exchange rate, none of which did any favours for the already failing economy. Indeed this put further pressure on the budget, as it also reduced levels of taxation revenue with so many companies failing to report any profits at all, despite increasing VAT[3] from 7 percent to 10 percent. The only explanation that can be used in this case is that it worked for Latin America, and the IMF were simply implementing their standard crisis package. If this is the case, then the IMF failed to appreciate that the Latin American crisis was due to a hyper-inflationary environment and government deficits, and that the East Asian crisis obviously was not. Pasuk suggests '*the Thai crisis bore only superficial resemblance to the Latin American model...the underlying causes...had been very different*'

[2] NGO: Non-Governmental Organisation
[3] VAT – Value Added Taxation

(Phongpaichit, 2000:39). The civil society group '50 Years is Enough', who campaign for the abolition of the IMF and the World Bank, also discuss the use of models prefabricated for the Latin American crises ('50 Years is Enough'). However, according to Stiglitz, '*today, the IMF admits that the fiscal policy it recommended was excessively austere. The policies made the recession far worse than it needed to be*' (Stiglitz, 2002:106).

The second key flaw pertains to monetary policy. After the devaluation of July 2, many firms were left bankrupt and deeply indebted, unable to pay large foreign liabilities and holding vast portfolios of non-performing loans. Firms were already unable to make their current payments, and yet the IMF deemed imposing astronomically high interest rates a policy of improvement. The theory behind this imposition had been that high interest rates would re-attract foreign capital, and slow down capital flight. Needless to say this policy only further exacerbated the debt burden. Stiglitz compares this to '*signing a death warrant for many firms – and for the economy*' (Stiglitz, 2002:104). This view is prominent among public critics, as discussed earlier by Sachs, Stiglitz and Bird.

The final policy which underscores the level of unsuitability attained by some of the IMF's policies is the loan conditionality. The US$17.2 billion package given to Thailand was primarily for financing the deficit in the balance of payments. This fundamentally implied the loan could not be used to help salvage local firms, yet by making the private sector debt the problem of the government it effectively saved the international firms, by 'socialising' the debt. Thus instead of penalising the international investors for poor investment decisions, their deposits were guaranteed by the Thai government. Looking at the bigger picture, this suggests that the tax payers providing funds for the IMF were simply giving their money to the international banks, by-passing the impoverished economy of Thailand completely, which acted merely as a facilitator in this process.

It wasn't long before the Thai public began to show their disapproval of the IMF's policies, as Bello describes, '*on the other side of the barricades, street demonstrations called for the resignation of the government, with many of them beginning to take on an anti-IMF colour. Critics began to be more vocal about their opinions that the tight-money, tight-fiscal-policy austerity package was a misguided cure that would only worsen the disease*' (Bello, 1998:47). Despite this, '*the IMF paid no attention to local criticism of the package*' (Phongpaichit, 2000:40).

The IMF does concede that many of its policies, with hindsight, were inappropriate. Bird and Milne discuss how the initial IMF programme of fiscal contraction was misplaced as domestic saving rates were high and investment was falling (Bird and Milne, 1999). This is clear from the development of the Letters of Intent (LoI) as the later LoI's focused more on reform of key legislation, and overhauling the financial sector rather than meeting numerical targets. A common suggestion in the wake of such public criticism of the policies is that there should have been more involvement of the local authorities, in this case the Thai government, in negotiating and designing appropriate recovery packages. This has led to the debate over the extent of 'dictating' by the IMF.

At the beginning of this chapter the unfolding of the arrival of the IMF in Thailand was recounted by the Bank of Thailand representative. This illustrated a picture of the IMF representatives, including Hubert Neiss, consulting the Bank of Thailand, but offering little room for negotiation or change. The representative also discussed how these consultations impacted the LoIs and the sentiment in the Thai government, '**the IMF prescribed the LoIs effectively, and therefore definitely gave them a lot of consideration, and it was the Bank of Thailand who simply had to follow it. The IMF had directed the Bank what to do. The Minister of Finance perhaps also didn't want to publish the first LoI as it would highlight how much power he had surrendered to the IMF**' (Bank of Thailand Interview, 2005). A lot can be drawn from this evidence, as it offers a clear picture of how the IMF exerted power over the Bank. With the threat of jeopardising international credibility, and losing the $17.2 billion loan it is understandable how the IMF were able to manipulate the Bank into agreeing to the LoIs. It is not clear if the Bank of Thailand was over-awed by the IMF, but they were certainly less than enthusiastic about how much control the IMF commanded. This would concur with the Bank of Thailand representative's views that perhaps a degree of embarrassment or shame would be associated with relinquishing so much power to an international body, and perhaps a loss of national pride. Whilst one can only speculate, it is important to be aware that the discussions of the reform programmes were not as two-way as the IMF like to lead people to believe.

This sense of vulnerability in the Thai government was also emphasised by Dr Weng Tojirakarn, the leader of the civil society group Democratic Confederation. He too felt the IMF imposed upon Thailand, which draws on the earlier citation of Bello, exposing a player-coach relationship between the Thai government and the IMF. '**Mr Chuan protested against the LoIs, having seen the experience of privatisation failures in Argentina, the US, UK and France. He argued there were no positive experiences of privatisation, except perhaps in China... Mr Chuan disliked the IMF greatly. An anecdote that is often cited refers to Mr Hubert Neiss [of the IMF] strolling into Government House and questioning "where is my bankruptcy law?" - This arrogance is apparently very representative of the attitudes upheld by the IMF**' (Dr Weng Tojirakarn, 2005). This suggests that even if it was recognised that the policies would be unsuitable before they were implemented, there was no significant force against the IMF to challenge their prescriptions. This corresponds with the view of Masina, illustrated at the beginning of this chapter.

These feelings of helplessness were felt within the banking sector too. Tohpan Tuchinda, a representative of Citigroup, the world's largest financial institution, explained how the IMF's policies were seen from the international banking perspective. '**Regarding the IMF, there was hardly any impact of the IMF. They had no public face of their own and acted from behind the scenes being fronted by the Bank of Thailand and the Ministry of Finance. It was from these two institutions that regulations and reforms were led (although clearly had been IMF directed), including various privatisations. Some of these were accepted by the public, and others weren't**' (Tohpan Tuchinda, 2005).

A common denominator of all the experiences is the inadequacy of the IMF policies in both addressing the specific problems in Thailand, and involving local opinion in their decisions. There is no surprise therefore, that the policies, especially the short-term stabilisation policies, did not work effectively, and merely worsened the state of recession. There is no further surprise that as a result public criticism came from all corners of the globe, and from all strata of Thai society.

What is particularly important to this research is that whilst the short-term macroeconomic adjustment was inappropriate, the long-term financial reforms addressed in the IMF's LoIs are, to some extent, appropriate. The crisis taught everyone that there were serious flaws in the Thai banking system which required correction to avoid future crises. These key reforms cover the bankruptcy laws, financial disclosure, capital adequacy requirements, and a change in the banking structure. There were also many other critical non-banking reforms which haven't been implemented, but were stipulated in the LoIs. Looking specifically at banking reforms, this next discussion will attempt to show that most of the policies implemented in the Thai banking sector were never properly followed through, and those that were did not help the fragility of the banking system. This will also consider the successful changes in the banking sector, and show how these were internally driven by the banks, and not state- or IMF-directed.

<u>4.4: Putting policy into practice: the case of the Banking Sector</u>

The four key reforms drafted by the IMF in their LoI's are capital adequacy requirements, merging and closing of banks and finance companies, bankruptcy law reform, and disclosure requirements. This section will give a brief outline of the nature of the reforms, how far they have been implemented, and what impacts have complicated this process. Assessment of these will help to answer the initial research question regarding the process of policy implementation, looking specifically at how the IMF channelled its policies to the grass roots of the Thai economy, focusing on the banking sector, and equally to what extent this has been done.

<u>4.41: Capital Adequacy Requirements</u>

All financial institutions, both public and private, were required to adhere to new capital requirements and prudential standards after the crisis. This was pushed fairly rapidly between 1998 and 2000, resulting in a malfunction of the financial system. Most banks and financial institutions were already facing extreme pressure trying to meet their debt repayments due to the recession, made even harder by the depreciation of the Baht. The devaluation in particular caused private sector foreign debt to increase from US$75.6 billion to US$2.14 trillion in the space of six months.

The capital adequacy ratios measure a bank's capital as a percentage of its risk weighted credit exposure. Standards are set to ensure banks are able to absorb a realistic level of losses before becoming insolvent. In times of crisis this is very difficult and much harder when requirements of such stringency have never existed before. Nevertheless, as Dr Kriengsak explained '**the IMF pressured the government to force the sealing of a new Financial Institution Act; pressing the increased capital adequacy ratio (CAR) on financial institutions**'. (Dr Kriengsak Chareonwongsak, 2005). This perception of pressure is concurred by Stiglitz: '*the IMF insisted that banks either shut down or quickly meet this capital adequacy ratio.*

But this insistence on banking quickly meeting capital adequacy standards exacerbated the downturn' (Stiglitz, 2002:116).

Table 4.1 below illustrates how loss-provisioning requirements changed after the new system enforced in 1998. According to Dr Pakorn, these new measures required local banks to add a further 80 billion Baht to their provisioning levels by the end of 1998, whilst finance companies were required to add a further 42 billion Baht in provisioning (Vichyanand, 2000:16).

Loan Classification	Months Overdue	Previous Provisions	1998 System of Provisioning
Pass	< 1 month	-	1%
Special Mention	0-3 months	-	2%
Substandard	Up to 6 months	15%	20%
Doubtful	Up to 1 year	100%	50%
Loss	> 1 year	100%	100%

Table 4.1: Changes in provisioning requirements for losses[4]

Problems of provisioning requirements existed before the new measures had been drawn up. In early 1997, 10 firms were publicly requested to increase their capital - one of which was Thailand's largest finance company, Finance One. This caused bank runs on them, leaving them in turmoil. '*The central bank announced that the FIDF*[5] *would help in providing them with capital, should they fail to raise it. They did fail, but no funding was forthcoming*' (Siamwalla, 2001:20). While in the long-run capital adequacy is vital for a strong financial sector, it is perceived that these stringent requirements were pressured upon the financial institutions too soon after the crisis. This again infers that insufficient consideration of the detail of the provisioning problems was paid when drawing up the reform package. This supports the arguments put forward earlier by Pasuk and Bello that the recovery procedure was made harder by the over-stringency of the IMF; '*financial institutions are still now struggling to increase capital, even with the government package on 14 August 1998, which enabled the government to issue up to Baht 300 billion in bonds to help with financial sector re-capitalisation*' (Sussangkarn, 1999:10).

<u>4.42: Changing the Banking Structure: Merging and Closure of Banks</u>

'*...by the second half of 1996, it became clear that many finance companies were in serious trouble, mostly through their exposure to property loans*' (Siamwalla, 2001:20). The shake-up of the structure of the financial sector was inevitable, as banks and finance companies began to collapse one by one.

After the third attack on the Baht in May 1997, further runs on the 10 finance companies took place, with 16 finance companies finally being suspended on June 27th. Despite the government's claims that these 16 would be the only suspended finance companies, runs continued on all the companies, demonstrating the lack of credibility of the Thai government. Tohpan of Citigroup explained,

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4 Source: Table 3, page 16 of '*Financial Reforms in Thailand*' by Dr Pakorn Vichyanond, TDRI, 2000

5 FIDF – Financial Institutions Development Fund: support institution set up by the Bank of Thailand

'Unfortunately the way the Bank of Thailand delivered information on finance company closures was inadequate. Initially they stated only ten would be closed, then at a later date they said there were more [sixteen were then closed] **and that would be it, until finally fifty-six were shut. The repeated breakings of promises regarding number of companies to close caused immense speculation and panic, and even before the full fifty-six companies were announced people started making bank runs, pulling out wherever they could. It happened so quickly it was like a domino effect'** (Tohpan Tuchinda, 2005).

This lack of consistency on behalf of the Bank of Thailand demonstrates the power of confidence. The continuous breaking of promises not only illustrated that the Bank did not have control over the situation, but also that they must have acted each time on less than full information sets, adapting the situation to meet new information as it became available. This unreliability is clearly a key cause of the bank runs which crippled much of the industry, as runs were also made on perfectly-sound banks, as no-one could be sure whether their banks were due to be closed in the future or not. This small case study demonstrates that poor policy implementation exacerbated the fragility and undermining of an already ailing financial sector. Whilst the Bank of Thailand takes much of the blame for this, close consideration of the first LoI written by the IMF shows that the IMF were central to the plans to 'isolate a significant number of unviable institutions' (IMF, 1997). This concurs with Tophan's earlier comments that the IMF acted with no public face, but operated through the Bank of Thailand. This event therefore hurt the credibility of the Bank of Thailand, rather than the IMF, despite evidence suggesting the Bank was merely the IMF's puppet, carrying out its demands.

The Financial Sector Restructuring Agency was formed in December 1998, to harbour the assets of these 56 suspended firms, before auctioning them off. The proceeds would then be used to pay off their liabilities. Another newly formed agency to aid this process was the Thai Asset Management Corporation (TAMC), which helped to price the assets, and also bid for them. Unfortunately due to lack of appropriate legal structures to aid the enforcement and foreclosure of loan contracts, this process took much longer than planned, inducing further uncertainty. With already so much uncertainty regarding legal reform as well as financial reform, asset prices were forced very low to encourage people to take on these risks and buy them. The average asset was sold at 25 percent of its initial face value at auction[6].

The government salvaged the 'good' assets from the 'bad', paving the way for the merging of all the good assets into a good bank, the Radhanasin Bank. This approach collapsed after it became too difficult to distinguish between good and bad assets. On August 14, 1998, a new financial restructuring package was delivered. This permitted foreign takeovers of Thai banks, and eventually seven of the existing fifteen banks (not part of the original 56) were sold to foreign buyers (Phongpaichit, 2000:50). Thirteen of the 56 closed finance companies and one small bank merged to become part of the state owned Krung Thai Bank (ibid.). However Tohpan believes **'that the resulting banks from merged finance companies and other banks, such**

[6] Source: Financial Sector Restructuring Authority

as the Krung Thai banks are not very successful banks. If anything the overall efficiency has improved as instead of many bad banks, there is now only one bad bank. The government bought the bad assets of the state owned banks, and the private banks dealt with their bad assets themselves' (Tohpan Tuchinda, 2005). Tohpan's comments here illustrate that despite the government's plans to salvage the weaker banks by merging them together; they rarely produced a new big successful bank. It is perhaps little solace that the only efficiency benefits to the financial sector as a result of this new financial restructuring is that the relative number of bad banks is less than before. This again demonstrates the lack of impact of the government-directed reforms.

Of the local commercial banks which survived, Siam Commercial Bank has been the most prominent success. Veerathai Sanitprabhob, a Senior Vice President, and Head of Equity Investment Division explained to me: **'SCB has changed dramatically...Firstly the attitude towards risk management: they used to have a decentralised credit approval system, so that the branch managers decided whether to approve loans etc. All loans are now approved by at least three different people, and the process is very strict. This was an internal change, prompted by internal management and not dictated to them by central Thai authorities'** (Santiprabhob, 2005). Veerathai also pointed to the role of expertise, with the important changes in the SCB board of directors, **'it now includes many more professionals, especially strong lawyers and auditors. The other changes within it has been the increased number of foreigners, as pre-crisis the only foreign representative on the board was Japanese, and he played a very passive role. Since the crisis the company now realises the importance of legal requirements and reforms to satisfy the shareholders'** (ibid.). It is important to note that none of these key successes have been state-, or IMF-induced, as this seems to be an important distinguishing factor that separates the now successful Thai banks from the not-so-successful banks. Veerathai hinted at a requirement of internal motivation for successful reform, a drive to be efficient, which is not so clearly demonstrated by the family run banks such as Bangkok Bank, and even less so by the state-owned banks who enjoy the benefits of government subsidies.

Veerathai explained that government involvement in the financial sector has added to inefficiencies, **'some banks are still state-owned too, and they are subsidised by the government, such as the KTCB and Bank Thai and this lowers their cost of capital, and can therefore enable them to lend very aggressively'** (ibid.). This is reminiscent of the pre-crisis days when the focus of banks was more on the size of their lending portfolios, rather than project-worthiness and efficiency. He also criticised the TAMC: **'the TAMC and the development banks were too late. It was six years after the crisis that they started and by then most loans were already under restructuring. The TAMC is also not at all transparent. It needs strong banking leaders, and is currently run by Bank of Thailand ministers. The TAMC has fostered inefficient firms, and this stops competitive firms from being able to compete properly'** (ibid.). This again helps to demonstrate that the restructuring measures designed by the government were implemented in the banking sector, however they lacked effectiveness due to mismanaged timing and a lack of profit-motivation, more commonly found in private enterprises.

The structure of the Thai financial sector is still changing. Government plans to salvage the ailing banks which collapsed in the late 1990s have not worked effectively, and the most successful Thai banks have been private, and reformed by themselves. The limitations of this restructuring have been related to legal reform, and company transparency. These have been addressed by the government with varying degrees of success, and with the encouragement of the IMF.

4.43: Legal Reform: The Bankruptcy Law

> '*Before 1998, Thai laws relating to bankruptcy allowed the liquidation of a company that was declared bankrupt. There was no rehabilitation procedure to keep the company intact as a going concern...the law however was merciless toward a declared bankrupt person. For as long as his debt remained unpaid, he would suffer from considerable civil disabilities...because of this feature of Thai law, lenders in Thailand had a fondness for personal guarantees, even in loans to companies, because they felt this was their ultimate threat*' (Siamwalla, 2001:36).

A bankruptcy law was vital to facilitate the recovery of the economy. Unfortunately the existing law was enacted in 1940, and was inadequate to cope with the demands of the crisis. The law was reformed in 1998, providing the facility for business rehabilitation and in 1999 underwent further amendments, namely the creation of the Central Bankruptcy Court.

In 1998 there were three key changes: firstly it gave more protection for creditors helping salvageable firms rehabilitate. This was critical during the crisis period, as the liquidity shortage, and high interest rates put pressure on recovering firms. The amendments of 1998 meant that creditors had incentives to help firms work through such shortages, receiving additional assurance (Santiprabhob, 2003:53). The second amendment '*categorized payroll debts owed to workers in the same preferred status as those owed to the tax authorities, with a view to encouraging workers to continue working for highly indebted firms during their rehabilitation process*' (ibid.). Unlike before, this allowed bankrupt firms to continue their operations, as previously workers would leave upon bankruptcy, as they lacked a prior claim to their wage debts. The third key change in the law made it easier to approve rehabilitation plans, as the previous method was complicated and did not adequately reflect the seniority differences amongst creditors.

Despite these reforms and further reform in 1999, state manipulation meant the laws were not passed exactly as hoped; in Veerathai's (of the SCB) interview he stated that **'definitely the ministerial set-up impacted reform. The political capital is so vital, and there were big infighting factions within the government at the time of the crisis. Clear cut examples are evident today even, with the way that the parliamentarians managed to water-down the bankruptcy laws by the time they were passed'** (Santiprabhob, 2005). He also described how the IMF played a role in aiding the bankruptcy changes, **'the IMF constantly provided expertise, especially regarding legal changes, such as the bankruptcy laws - although the law has since been watered down and manipulated and is not how the Thai people wanted it to be, especially those people in the financial sector'** (ibid.). This concurs with the view of Siamwalla, who states '*the reform of the bankruptcy...laws* *ran into many roadblocks. The most important group opposing the new laws was in the Senate, which at that time was an appointive body, and had among its members some very vocal debt defaulters. Some of these stood to see their entire business empire collapsing*' (Siamwalla, 2001). However, others disagree with this point of view; Dr Pakorn of the TDRI[7] believes '*the government was successful in overhauling the bankruptcy and foreclosure laws*' (Vichyanand, 2001:24). On balance, the current bankruptcy laws are a radical improvement on the antiquated acts of 1940.

A key lesson to take from this is that whilst the IMF can dictate the policies to be implemented at a top-tier level, by pressurising government ministries to agree to the LoI's with little negotiation, they do not have overriding control of <u>how</u> these policies are implemented through different tiers of the political economy. This case study of the bankruptcy law illustrates clearly how the personal interests of government individuals retain the power to water-down and manipulate these reforms for their own personal gain, or in this case to avoid as much personal hardship as possible. This understanding is paramount to evaluating the initial broad questions of this research project.

<u>4.44: Transparency and Disclosure</u>

The availability of information played a huge role in the crisis, from the large-scale government-public communication, to the micro-focus on company disclosure. This will be discussed in depth in the next chapter. However company disclosure was a vital change. The BoT announced the upgrade of financial standards to those of international levels on March 31, 1998. The aim was to have them aligned by 2000. This also required companies to report quarterly, and not annually as they previously had done. Auditing was also now required, with all reports to be submitted to the Central Bank, and loan portfolios were also published (Vichyanand, 2001:8). The aim of this was to avoid the moral hazard issues which had plagued the Thai banking system for decades. Full investor information was required for a fully flexible financial sector.

The Stock Exchange Commission (SEC) facilitated investor information in 2000 through the creation of a 'capital market information centre' to provide '*information access, education and training, and investor protection*'(Vichyanand, 2002:18). In 2001 they promoted Fitch Ratings to be Thailand's second credit rating agency, offering further access to information for investors. However in Vichyanand's 2001 paper, '*Complicated Difficulties behind Financial Resolution: The Case of Thailand*', he highlighted the further need to upgrade accounting, detailed information and transparency, suggesting that there is still a long way to go before a fully developed financial sector is reached.

[7] TDRI – Thailand Development Research Institute

4.5: Conclusion

This chapter provides an overview of the policies implemented by the IMF. It considers the extent to which the IMF has a rigid model dictating its policies, and also the extent of tailoring in their reform package to national characteristics and exigencies. Primary material in this chapter offered a detailed understanding of the exact 'negotiation' process which occurred between the Bank of Thailand and the IMF, which contradicts many of the IMF's claims of how they work with a country in crisis. This evidence has also uncovered the important role of power differentials, illustrating a sense of vulnerability of the Thai government in the face of the IMF.

A key finding of this chapter was that state- and IMF-directed reforms had little success in promoting a more efficient and competitive banking sector, and that the most successful banking firms had initiated their own internal reforms to achieve profitability and restore credibility lost in the crisis. This chapter has also analysed the 'suitability' of the IMF-suggested reforms, looking more closely at the four key banking reforms. This brief analysis has shown that there are many factors which affect the extent of successful reform implementation. For example, the bankruptcy laws highlighted political constraints, such as the ability of individuals to rework and water-down policies for personal gain, and the disclosure reforms highlighted the need for greater information transparency. The next chapter will look more closely at the role of information transparency as an obstacle to efficient reform implementation.

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GOSSIP, LIES AND SMOKE SCREENS

This chapter will consider the problem of information transparency as an obstacle for policy implementation. The problems of the information flows between the Bank of Thailand (BoT), the government and the International Monetary Fund (IMF), as well as the availability of public information from the government for the Thai people will be the key relationships under debate. This chapter will further explore how speculation and rumour, misdirected information, lack of transparency and moral hazard issues govern thought processes, decisions and attitudes. Focusing on the Thai banking sector, the chapter will demonstrate how the role of information transparency affected and intensified the crisis at it unravelled, and how it is currently hindering reform.

5.1: Hot gossip: the role of speculation and rumour

For many, distorted Thai information flows, in the form of speculation and rumour, caused the crisis. As investors lacked a full information-set to form 'rational' views, the 'herd-like' behaviour of investors caused them to flock to whichever hearsay they deemed the most credible. With financial news wires such as Reuters and Bloomberg global investors have access to news, speculative suggestions and statistics at the touch of a button, within seconds of public announcements, and twenty-four hours a day. In liberalised global financial markets, rapid investor-sentiment shifts are accompanied by substantial capital inflows and outflows. Upon liberalising the Thai financial system, the government effectively opened the economy up to this volatility. As Stiglitz rightly states, '*capital market liberalization made the developing countries subject to both the rational and the irrational whims of the investor community, to their irrational exuberance and pessimism*' (Stiglitz, 2002:100).

Beaverstock and Doel (2001) elaborate on this, although numerous writers have contributed to discussion on the role of panic in driving the crisis of 1997 (Jayasuriya, 2001, McLeod, 1997, McLeod, and Garnaut 1998b, Montes, 1998, Radelet, 1998a, 1998b, Stiglitz, 1998b):

> '*while some writers have presented the East Asian financial crisis as an essentially home-grown affair, for others it demonstrated the destructive force of fickle, panicky, and madcap global capital amid essentially 'sound' economies*' (Beaverstock and Doel, 2001:18).

Such investor panic exacerbated the crisis and this was one of the key findings in the Nukul Commission Report of 1998. '*When it became apparent in 1997 that private enterprises in those* [Asian] *nations would not be able to meet their payment obligations, international currency markets panicked. Currency traders sought to convert their Asian money into dollars, and the Asian currencies plummeted. That made it harder for the Asian countries to pay their loans, and it made imports suddenly very expensive*' ('50 Years is Enough'). It is well documented that financial corporations were themselves a source of financial speculation. George Soros famously intervened during the three attacks on the Thai Baht with his 'Quantum Fund'. Further details came to light regarding this in January 2005, after The Nation published an article in which the Chief Executive of Thai Petrochemical Industry Plc (TPI) stated that he had been persuaded by Soros to initiate the July 1997 attack on the Baht (TN, 2005(48)).

> *'Panic is fed by hedge funds, pension funds, mutual funds, and the absence of viable international bankruptcy proceedings. However, it is a moot point whether some actors, such as hedge funds, are reactive in this sense. It may be the case that certain actors are capable of precipitating even engendering a crisis. Indeed, much of the blame for the financial crisis has been set at the door of the hedge funds with their speculative attacks on selected East Asian currencies from the summer of 1996 onwards'* (Beaverstock and Doel, 2001:18).

Beaverstock and Doel here highlight the important role of the lacking of appropriate financial laws and regulations as a facilitator in undermining the financial system. Related to this they go on to discuss the role of confidence and investor pyschology, *'both rational and irrational behaviour can render capital a destructive force'* (ibid.). This is exemplified by other analyses: Corden states that the financial crises in the capital and foreign-exchange markets were due to a *``a sudden loss of confidence"* (1999, p. 1); Winters writes of *'a psychology among investors that inflates an economic bubble and then triggers its collapse'* (1999, p. 89) and furthermore, Delhaise points to the fact that *'unnecessary panic inflicted far more damage in East Asia than the region's ill-management of growth'* (1998, pp. 14,15). This sense of confidence was maintained, and arguably inflated, by the level of praise the Thai economy received from the IMF and the World Bank, as reflected in their 1993 report (World Bank Research Report, 1993), naming Thailand as the 'fifth tiger'. This was discussed previously in Chapter 3.

As investors pulled their investments out of the Thai economy, and finance companies collapsed, speculation was further incited by the government's lack of transparency regarding which firms were due to close. Tohpan, from Citigroup, witnessed this directly from a foreign bank's perspective,

> **'Unfortunately the way the Bank of Thailand [BoT] (prompted by the IMF it is assumed) delivered information on finance company closures was inadequate. Initially they stated only 16 would be closed, then at a later date they said there were more and that would be it, until finally 56 were shut. The repeated breaking of promises regarding number of companies to close caused immense speculation and panic, and even before the full 56 companies were announced people started making bank runs, pulling out wherever they could. It happened so quickly - it was like a domino effect'**. (Tohpan Tuchinda, 2005)

The government did not act sufficiently quickly to quell speculation and further hindered this with consistent dishonesty (as discussed in depth in the next section). The government is also indirectly additionally to blame for opening up the economy too early, and doing so while it lacked vital institutions and regulations. Chang states that many *'argue that the Asian crisis was mainly caused by the ``manias, panics, and crashes" mechanism (the term is due to Charles Kindleberger) inherent in unregulated financial markets'* (Chang, 2000:3). This suggests that there is a future role for governments to ensure that there is informational transparency not only in financial markets, but across all spectrums of the economy. Facilitating the provision of full information sets is critical to allow individuals to make rational decisions, a privilege which should not be reserved solely for investors.

The IMF too induced further speculation and panic, as they represented confirmation of an economy in strife, according to Citigroup's representative, '**initially when it was announced that the IMF were coming in, the public and indeed the banking community became scared, fearing that whatever was to come would be incredibly painful**' (Tohpan Tuchinda, 2005).

The Thai government have since formally recognised the role played by speculation in creating and deepening the financial crisis of 1997. Measures have since been implemented to respond to speculation and quell rash market movements, in an attempt to avert another crisis. In February 2005, after the SET[1] fell 2.4 percent on foreign selling, the Finance Minister Somkid Jatusripitak quickly made a statement '*to soothe market jitters, saying investors should not ponder only monthly deficits in the current account, but rather consider it on a yearly basis*'(Chanjindamanee, 2005(73)). The Nation newspaper also stated that private sector firms also acted similarly, '*fund managers and analysts also rushed to put a positive spin on the day's trade, saying foreign investors' selling pressure would be a short-lived phenomenon*' (ibid.) and even the SET's executive vice president Sopawadee Lertmanaschai made a statement insisting the '*selling is not worrying...it is normal, not sparked by panic*' (ibid.).

New SET regulations enforced in January 2005 are specifically designed to impede market rumours from inciting irrational investor activity. The SET president Kittiratt Na Ranong publicly announced '*the SEC suggested that we invite listed companies whose share prices may be significantly affected by rumours to hold a press conference to clarify the truth...this will allow the public to get information directly from the source of the rumours*' (Chanjindamanee, 2005(55)). This will help restore confidence in the Thai financial markets, as currently the crisis is fresh enough in everyone's mind that any market abnormalities are likely to make investors more nervous than they would in a more mature financial environment, like the US market for example.

Stock exchange settlement changes have also been imposed to facilitate and encourage trading. As of June 1st 2005 stock settlement time was reduced from three trading days (T+3) to two days (T+2), in line with other international exchanges (TN, 2005(66)). There has been great pressure to solve the informational issues in the Securities and Exchange Commission (SEC); since the appointment of Thirachai Phuvanat-naranubala as secretary-general in December 2003, '*he has tightened regulations governing supervision in a relentless effort to calm stock speculation and protect retail investors*' (TN, 2005(64)).

This brief discussion of the role of speculation and rumour in inciting the crisis, and indeed making it worse has illustrated how key an issue it really is. This section has also highlighted successful reforms implemented by the SEC to help solve the problems that are caused by investor hearsay. It is important to realise that the flow of information can play an integral role in shaping financial systems, as the following

[1] SET: Stock Exchange of Thailand

sections will illustrate. However even the IMF identified how integral panic was in the collapse of the SET, '*the currencies and the stock markets collapsed as a result of panic . . . These are the symptoms, not the malady itself*' (International Monetary Fund, 1999:7).

5.2: Lies, lies and statistics: misleading information

Both the relationships between the government and the IMF, and the government and the Thai people were littered with lies and dishonesty. Inhibiting the flow of accurate information not only hampered the IMF's programme for reform, but also created a sense of mistrust among the Thai people, arousing further suspicion of reform. In no way did any of these lies provide an advantage or benefit to the crisis recovery. The sense of trust was critical to the government, and in many ways the lies were ironically created to protect the existing levels of trust of the government, and the BoT's credibility. With hindsight this did not work, and further damaged both the credibility of the government and the BoT.

For many the dishonesty of the government was apparent in the lead up to the devaluation of the Baht, in late June and early July. Speculation surrounding whether or not the Baht would in fact devalue was rife, and the government was required to make statements to correct this unease. Dr Weng of the Democratic Confederation compares the behaviour of the BoT and the government at this time to one of a puppet, whereby the BoT dictated what was to be disclosed, and the government acted as the BoT's public voice. He outlined the events as follows:

'26th June:	**Prime Minister (PM) asked the BoT how and what he should tell the Thai people. The BoT stated that the PM (Chavalit) must confirm that the Baht should not float.**
29th June:	**It was decided internally that there was no choice but to float.**
30th June:	**They closed the accounts of Thailand.**
2nd July:	**Chavalit had to tell the truth, and the Baht floated. It was therefore evident that he had lied to his people on June 26th'**. (Dr Weng Tojirakarn, 2005)

While the accuracy of these events cannot be verified, it is surprising that this is how the events are interpreted by someone who is so integrated into the political system. Dr Weng has much involvement with high profile politicians and meets regularly with the current Prime Minister Thaksin Shinawatra. On this basis his account of these events cannot simply be discredited.

Dr Kriengsak MP, the Executive Director of the Institute of Future Studies for Development, also felt the government had confused the public in a similar vein. He stated:

'The way the government communicated information to people during the crisis was confusing and changed constantly, for example,

> **"The government declared its decision not to depreciate the Baht, but decided to float the value of the Baht after that;**

> **"After closing 16 financial institutions, the government declared that it would not close any more financial institutions, but finally another 42 institutions were closed;**
> **"The government did not guarantee the creditors' loans for the 16 closed financial institutions, but did guarantee the creditors of the 42 that were closed later'** (Dr Kriengsak Chareonwongsak MP., 2005).

This reverts back to what Tophan, of Citigroup, believed was a serious communication problem of the government; the misleading information regarding the bank closures which caused severe panic among both Thai businesspeople, and the foreign investors. Concealing the true state of affairs of the banking problem, in order to protect the financial sector, was not a wise decision and really undermined the sector instead. Similar events still occur in Thai society today, for example with the latest outbreak of bird flu, Thaksin concealed the extent of the problem until people started dying, in order to protect the tourism and poultry industries (Chaitrong, 2005). There thus seems to be an issue in Thai political culture of maintaining a sense of 'face' until problems get beyond concealment, and thus informational problems are not solely a problem for the financial sector alone.

Revealing the truth about the state of the Thai banks was a serious problem not just for the government, but also for the banks themselves. Having spent so long building reputations of solid, successful companies, they were anxious not to publicise the dire situations many of their debtors were facing, whose assets underpinned their banks.

> *'It was, however, impossible for the banks and finance companies to declare so many of their borrowers as problem debtors without calling into question their own financial status. It was in the interest of both creditors and borrowers to sit tight, keep the real state of things under wraps, and resort to 'creative accounting' to maintain the aura of financial stability. Indeed the chairman of Bangkok Bank advised against publicly disclosing the extent of non-performing loans since this would result in a situation where 'many will be unable to continue their operations'*(Bello, 1998:28).

It is clear that trust and credibility were very important to the Thai government, as they are to all governments. Yet in this instance evidence suggests the government was willing to jeopardise their long-term credibility in an attempt to save, or at the very least cover up, their financial fragilities. However, trust was an important obstacle in their relationship with the IMF. Mistrust of the IMF was apparent from the first meeting after drafting in the IMF's help. A BoT representative described the situation: **'in the first period there was an atmosphere of mistrust as the BoT didn't give out numbers to the IMF. This was because members of the IMF who get hold of really important information don't have to face a cooling-off period before leaving the IMF and joining the private finance sector, where they could use the knowledge of these numbers[2] to their advantage'** (Bank of Thailand Interview, 2005). This suggests that because of the element of mistrust towards the

[2] By 'numbers' the representative is referring to the actual levels of debt in the Balance of Payments, and Foreign Currency Portfolio balance, which would have outlined important information regarding Thai currency stock positions and options and also the extent of how much debt Thailand had amounted.

IMF the BoT held back the true extent of their frailties and debts, as these figures were incredibly market sensitive. Just as the government felt the need to cover up their problems to save face, this account suggests the BoT also felt the need to conceal their problems but to avoid the private sector taking further advantage of the economy in crisis, even though this would have hampered the initial reform plans. This mistrust was caused by the close relationship between individuals who made up the IMF and private sector corporations. Indeed it was the case that after working in the IMF many key players would go straight into the private sector, for example Hubert Neiss later joined Deutsche Bank and Stanley Fischer went to Citigroup, without any gap between positions, so that they could in fact use market-sensitive information gathered at the IMF to their corporations' advantage. Even in international banking, employees have a three-month 'cooling-off' period before they are allowed to join another bank to avoid the sharing of sensitive information (i.e. it is likely that in three months the information is either public to all or defunct); this is not extended to individuals who have come from other related institutions, such as the IMF.

This mistrust was critical in the early stages of recovery, as it was upon these misleading figures[3] that the BoT did give out (which underplayed the extent of Thailand's situation of crisis) that the IMF designed their reform targets. Obviously the extent to which the IMF's programme was custom-made, and thus reliant on these figures, is still a talking point as outlined in Chapter 4. It may be considered quite extreme that the BoT were so hyper-suspicious of the IMF that they were already considering the next moves of their representatives, however according to the BoT representative, **'in the Thai's view, hedge funds and private sector finance companies had been responsible for the downfall of the Thai economy, and thus why should they be trusted?'** (ibid.). This also demonstrates the critical issue of the role of individuals, for it was not the IMF as an institution which was so mistrusted, but the individuals who represented it. Again, this is important to consider when looking at the BoT – for the BoT does not necessarily have a policy of withholding information, nor jeopardising reform procedures, but it was simply that suspicions existed in a few of their key individuals which prompted such behaviour. Thus it was the reactions of a few individuals which later became viewed as 'the behaviour of the BoT'. Nevertheless, this comment from the BoT's representative concurs with the previous claims of George Soros' role, and those of his equivalents, in the speculative attacks which caused the devaluation of the Baht. From this perspective one can see how people may have viewed the IMF similarly, and therefore how easily a national sense of mistrusting towards the IMF infiltrated Thai society.

The BoT representative did concede that in time the IMF earned a degree of trust, but the initial mistrust clearly hampered the early stages of their relationship, which arguably were the most critical stages. This essence of mistrust slowed down the progress of recovery plans and much time was taken before the Thai government and the BoT spoke openly and honestly with the IMF. However, much of the apprehension the BoT had towards the IMF was due to the set-up of the IMF, and the close relationship of IMF individuals with the private international financial corporations which many believe contributed to the downfall of the Thai economy. This is a point which many have picked up on in discussion of potential reforms of the IMF (Bello: 1998, 2000, Goldstein: 2001, MacEwan: 2001).

[3] The figures given out by the Bank of Thailand initially are not available for disclosure.

5.3: Smoke screens: the role of information transparency

During the 1990s there was a dramatic increase in the availability of information in the public arena. This evolution was directly linked to the evolving democracy shaping itself in the wake of the Thai military coup of 1992 (Hewison, 1999). This put new emphasis on the role of the people's right-to-know, facilitated by '*an aggressive daily press, multiplication of new media,* [and] *cheap book and magazine publication*' (Phongpaichit, 2004:21). Yet despite these advances in public information, the Thai political economy is plagued with a lack of transparency. The primary obstacle to free flowing, publicly available information is the government. This section will highlight how the government has intervened in the information market, and the subsequent impacts on the crisis and its recovery.

Even as the crisis unfolded, confusion and not-knowing beleaguered the economy. This was prominent in the banking sector; Bello recounts the thoughts of a former stockbroker, '*We never had any indication we were in trouble, never. I was very busy, being in charge of many customers. Then one day the BOT suddenly tells us we have to shut down because we're bankrupt*' (Bello, 1998:3). This in many respects links back to the issue of 'saving face', as discussed previously. While the public were unaware of exactly what was happening, there seemed no apparent sense of fear or worry. The sentiments of panic seemed only to have been shared by the international financial institutions. This lack of transparency had endured a great length of time, to the extent that '*nobody really knew that the Thai economy was in a bubble when the Democrats were ousted from power in 1995*' (Khanthong, 2005 (63)), which in part explains why no one expected a subsequent 'bursting' of that bubble.

Once the Baht had devalued, and the crisis unfolded, characterised by the arrival of the IMF, there was further government secrecy. This involved concealment of the contents of the first Letter of Intent (LoI), which was the primary means of communication between the government and the Thai people. **'The LoI's were...the cornerstone of post-crisis policy. They would be how the foreign world would judge Thailand'** (Bank of Thailand Interview, 2005), and yet once the LoI was signed it wasn't immediately published. In the same interview the BoT representative explained, **'this is because they** [the government] **didn't want to induce panic. It was a judgement called at the time, that the confidence of the Thai people was important, and they didn't want to incite panic over the strict measures included in the LoI. The BoT was still undergoing a learning process and didn't want to scare people'** (Bank of Thailand Interview, 2005). Nevertheless people felt that they did not know what was going on and this impeded their understanding of the reforms which were publicly implemented, **'the government also failed to help people understand the interim policies being foisted on them in the meantime, with the result that these policies were largely opposed by people due to their lack of understanding in terms of the whole picture'** (Dr Kriengsak Chareonwongsak MP., 2005). This also caused a degree of suspicion, as no-one knew whether the government was telling the full truth. To a certain extent Dr Kriengsak MP explains that this was due to the technical nature of the reforms, **'people did not know much about the reforms because the government under the IMF programs focused mainly on the reform of financial institutions which was very complicated and an extremely technical issue and distant from them. In addition, the government failed to communicate in a simple manner to people, thus those in rural areas**

could not understand the reform that had already taken place at that time' (ibid.). This problem, of mismanaging communication with the Thai people, was overcome by the later elected Thaksin government in 2001. Their success has been based on the simplicity of their policies, and their open relationship with the public (ibid.). Stiglitz also points to the helping role of the new constitution, which pre-dated Thaksin, stating: '*the new constitution in Thailand promises a stronger democracy, (including a provision embracing the citizen's "right to know"...), promising a level of transparency certainly beyond that of the international financial institutions*' (Stiglitz, 2002:131-132).

While reforms were poorly communicated between the government and the wider Thai public, Tohpan explained that they were also poorly directed to the banks. He commented on the lack of transparency and the associated uncertainty regarding the closure of the finance companies; not only did the government mislead the firms, as discussed in the previous section, but they also failed to adequately inform the banks which firms had closed: '**it was up to the finance companies to inform the banks** [e.g. Citigroup] **who were supporting them financially whether they were to close or not**' (Tohpan Tuchinda, 2005). Dr Kriengsak MP also discussed the problem of insufficient clarity of events in the financial sector; these uncertainties without a doubt brought upon further suspicion and mistrust to an already fragile government:

'explanations related to measures and accusations were not clearly notified by the government and most people have not yet understood them, even until now, for example:

- **The government did not disclose its conditions made with the IMF;**
- **The explanations were not clear as to why they had to urgently sell assets of the Financial Sector Restructuring Authority (FRA) at a very low price;**
- **The government did not explain why they sold assets only to foreign companies and whether or not those foreign companies truly brought foreign currency to purchase the assets, or if it was the broker who bought the assets and subsequently sold them to Thais in order to gain the price margins'** (Dr Kriengsak Chareonwongsak MP., 2005).

Due to the lack of transparency regarding the events leading up to, and during, the crisis, the Nukul Commission was tasked with providing an 'Analysis and Evaluation on Facts Behind Thailand's Economic Crisis'[4]. In the same document they made recommendations to improve the efficiency and management of Thailand's financial system (Nukul Commision, N. C. Report 1998). One of their recommendations was '*to promote exchanges of information*' (ibid.) with specific regard to financial institutions.

Increased transparency has been one of the biggest changes in the Thai political economy since the crisis of 1997. However, it is by no means perfect. Some argue that the government has simply taken steps to conceal information at a more strategic level, through manipulation and influence (Dr Weng Tojirakarn 2005, Phongpaichit 2004). Others are of the opinion that whilst it is still an issue, there has been

[4] Title of the Nukul Commisson report, dated March 31, 1998

significant progress in opening up information to the Thai people who are, as a result, more informed.

The BoT speak highly of the changes in information transparency since 1997, to the extent that they believe this is perhaps one of the most significant legacies of the crisis: **'the biggest change has been the increase in openness and communication and the increasing voice of the press. There has been a huge increase in vigilance. Any imbalances are noticed and discussed openly. People are now more probing. There has definitely been an increase in transparency'** (Bank of Thailand Interview, 2005). The BoT also believe this has underpinned the newborn trust in the Thai government: **'the government is now seen in good light and in good standing. This has been due to the open dialogue it has been engaging in, and their ability to deliver to the public exactly what has been going on, by sharing projections and forecasts and offering direction'** (ibid.).

On the other hand, Tohpan believes there is still much room for improvement in the banking sector, **'the key problem still is disclosure needs improving. There is still need for increased company transparency. It has improved since the crisis but there is still a long way to go. Banking in Thailand is incredibly inefficient'** (Tohpan Tuchinda, 2005). As spokesman for the Thai Rak Thai party argues, the government is currently trying to improve on financial transparency and already has made important steps to ameliorating the situation in the banking sector: '*Mr Thaksin has tried to improve the transparency of Thai business by strengthening stock market regulation and banking supervision*' (Economist, 2005b:24).

The most prominent topic of contention is the role of the press. A demand for an increased role of the press developed during the 1990s; however despite this, the Thai press is not a 'free press' (Phongpaichit 2004). Evidence of this first came to light during the 2001 election campaign; the press and television media were found to have been manipulated to favour the new electoral candidate Thaksin Shinawatra, leader of the Thai Rak Thai party; a self-made billionaire thanks to the communications industry. Pasuk and Baker report that '*just before the 2001 general election, journalists on the channel* [the independent TV channel iTV] *complained that Thaksin was interfering in its election reporting. Twenty-three were summarily sacked*' (Phongpaichit, 2004:149). Shortly after this, Thaksin's family's holding company bought iTV, the only independent television channel in Thailand. According to the Economist, this has been a key factor in the loss of vibrancy suffered by Thai broadcast media in the last decade (Economist, 2005b), despite the increasing demands of Thai people to become more politically and economically aware.

The current Thai government, led by Thaksin, has used this stronghold over the media as a means to control public information. With blanket ownership of all the television stations (controlled either by his family, the government or the military), Thaksin is able to manipulate the Thai people's opinions. The Economist explains how he controls the press in the same fashion: '*editors complain that government agencies and Shin Corporation subsidiaries withhold advertising from newspapers critical of the prime minister. The family of Thai Rak Thai's secretary-general recently bought a big stake in the Nation, Thailand's most outspoken paper*' (Economist, 2005b:23).

Such manipulation infers the level of information transparency is no better than it used to be. The difference between now and pre-crisis is that beforehand the government did not converse openly with the public at all. Today the government speaks out, but only telling people information which shows the current government in good light. Thaksin openly admits to promoting such news; Pasuk and Baker demonstrate this with extracts from The Nation newspaper, '*Thaksin demanded that TV channels "cut down on negative news and bring out more positive news to boost businessmen's morale" (TN, 6 May 2003). The army sent a memo to all its radio and TV stations instructing them to focus news coverage on the work of the government (TN, 13 July 2001)....One such memo stated: "opposition to privatisation of state enterprises is not allowed to be broadcast" (TN, 4 March 2004)*' (Phongpaichit, 2004:150-1). This problem has been recognised within press circles, and in 2003 the Thai Journalists' Association went as far as releasing a statement to publicise the extent of the issue, '*"It has become well known among print journalists that advertising incomes from companies under powerful people in the administration, and from government agencies and state enterprises, have been used to bargain against publishing stories that could negatively affect the government's image" (TN, 29 December 2003)*' (Phongpaichit, 2004).

Thus information transparency is still an issue which requires addressing in Thailand; however with the main culprits being the top level government, there is no reason to expect an improvement in the near future. As a result the government has the facility to promote policies and opinions by simply reworking information to put in the media. This will be discussed at greater length in the next chapter, which will illustrate the extent of government intervention as an obstacle to policy reforms. What is so prominent about the level of government control of information is that some individuals go as far as arguing that such controls are reminiscent of communism manifestoes, and World War propaganda (Dr Weng Tojirakarn 2005). After being sacked for referring to Thaksin's 'arrogance' in an editorial in 2004, the former editor of the Bangkok Post stated: '*"In 30 years, there has been no political meddling as shocking as this...What is happening now is worse than under military regimes" (TN, 27 February 2002)*' (Phongpaichit, 2004:153).

5.4: The issue of not knowing: moral hazard inefficiencies

One of the biggest problems characterising the Thai economy, and more specifically its financial sector, was the issue of moral hazard. This can be defined as 'a risk to an insurance company resulting from uncertainty about the honesty of the insured[5]', or to apply it more to the Thai situation, a risk to the financial institutions resulting from the acceptance of poor investments, due to a lack of information. The key issues that will be closely looked at in this section are why moral hazard occurred, and what its impacts were, and how the Bank of Thailand and the IMF facilitated this.

Moral hazard was mainly caused by the over-competitiveness of the banking sector. Economic theory describes perfectly competitive markets as those in which firms cannot generate abnormal or supernormal profits as so many firms offering an identical service to the others are competing for business. Unfortunately theory also

[5] Definition from *The American Heritage Dictionary of the English Language,* Fourth Edition, 2000 by Houghton Mifflin Company, Published by Houghton Mifflin Company

dictates that any attempt to undercut this market can only be short-lived, as eventually market forces will require the undercutting-firm to increase their prices, or it will become bankrupt. This theory can be directly applied to the events of the Thai banking sector during the 1990s. Tohpan, the Citigroup representative, explained his view of the situation, '**the crisis was caused because Thailand has too many banks. As a result clients are over-banked and therefore banks compete heavily and their spreads become irrational. All risk-management control is lost. Companies offer stupid rates to create business because without the business they won't survive. As a result the banks and finance companies don't look at who they're investing in; they just accept it as business**' (Tohpan Tuchinda, 2005). This view is also supported in existing literature (Chang, 2000, Krugman, 1998a).

If the problem is simply a matter of too many banks, then surely it would seem financial common-sense to close down or merge? Having put this question to Tohpan, he explained that this was more a problem of culture than a problem of inactive regulation and monitoring: '**private banks are family owned and there is no way one family is likely to merge with another, that's not how family business culture works in Thailand. In this case merging private banks would not increase efficiency**' (Tohpan Tuchinda, 2005). Tophan explained the ownership structure of Thai banking, offering a crude breakdown of their respective cultures and incentives: there are three main categories of bank ownership in Thailand: state-owned, family-owned, and stakeholder-owned (i.e. public limited companies). Each type of ownership has its own incentives and only in stakeholder-owned firms is profit the sole, or dominant, motivation. State-owned banks are instructed to provide banking services to the masses, such as rural and peri-urban populations, as well as the more profitable urban sector. Their services are subsidised to ensure even the very poor can have access to credit, which would not be provided by private, profit-motivated firms. Family-owned banks, however, operate to ensure the provision of credit for their family, and related businesses and friends. They too aim to be profitable, but this is a secondary priority to offering investment opportunities to their close-knit family community. They pay less attention to the profitability of investments, but rather more to who the individuals asking for credit are. Thus the opportunity for moral hazard is much greater in state-owned and family-owned banks, and it is these that have been the slowest to recover since the crisis. The Siam Commercial Bank will provide a case study of this issue, illustrating the successful recovery of a stakeholder-owned bank, later in Chapter 7.

The IMF was a further source of moral hazard, this time however, on the side of the lenders (Frankel, 1998, McKinnon, 1998), as the implication of their bail-out package was that international lenders had their loans repaid. The moral hazard issue here is that banks are thus encouraged to lend to '*misconceived or speculative projects*' (Chang, 2000). This was also supported by the Thai institutions, through deposit insurance, which McKinnon and Pill (1998) single out as the main source of moral hazard in Asian economies. Because of a lack of a private deposit insurance agency, to promote and encourage investment, the Bank of Thailand acted as a lender-of-last-resort. This meant, if the financial institution failed to pay back its liabilities to the investors, then the Bank of Thailand would repay them instead. This policy has since been heavily criticised for the extent to which it encouraged over-borrowing.

Developments are currently in the pipeline for the creation of formal deposit insurance. However this, as with many of the financial reforms, has been subject to delay in parliament. Dr Pakorn, of the TDRI, suggested that deposit insurance wasn't the issue that needs resolving and believes it is an integral role of a central bank to provide this. He sees the BoT has having two key roles, **'the first role is taking care of monetary policy, and the second role is the supervising, monitoring and examining of financial institutions'** (Bank of Thailand Interview, 2005). His view is that with an appropriate independent governing body, resembling the Financial Services Authority which exists in Britain, the issue of deposit insurance shouldn't be problematic, as with appropriate regulation and monitoring the Bank of Thailand shouldn't have to be called in to pay off company liabilities.

The existing plan to replace the BoT being a full lender-of-last-resort suggests only a proportion of investments will be guaranteed. This puts the onus back on the lender to be more prudent with their choice of investment. Tohpan explains that there have been suggestions about private deposit insurance schemes involving the government, whereby investors pay a premium to the government in exchange for an explicit guarantee. However these plans are far from seeing fruition.

The need for an appropriate system to avoid, or at the very least reduce, the existing problems of moral hazard is seen by many as a key reform for the future (Siamwalla, 2001, Vichyanand, 2000, 2001). Implicit guarantees generated by relationship banking, and explicit guarantees offered by the Bank of Thailand have meant that investors have failed to look in detail at investment proposals and have acted on insufficient information. This 'not-knowing' was a key cause of the capital flight which was induced by speculation and rumour after the collapse of the first finance company early in 1997. Investors simply did not know whether they could rely on recouping their investments, as they rarely knew their specifics. As a result many investors pulled out blindly and, perhaps to a certain extent, unnecessarily. The exact truth will never be known because of a total lack of information and prudence. Veerathai, of the Siam Commercial Bank, explained in depth the new risk-management standards in his bank, after they had experienced moral hazard issues: **'the risk managers used to also work closely with the marketing department and therefore looked more at attracting business than the quality of their investments. Since the recapitalisation process this is no longer branch approved, but approved centrally by head office, where they have separated credit risk people and the marketing people'** (Santiprabhob, 2005).

The most important conclusion to be drawn from this is that there is real need for appropriate investment supervision and new financial standards. It is also important to realise that the onus is on the financial institutions as much as it is the government to overturn their previous inadequacies regarding risk management. The issue of uncertainty needs to be addressed, and government plans are under way to amend the current situation.

5.5: Conclusion

This chapter has highlighted the multi-faceted impacts of informational inadequacies. Not only have speculation, uncertainty and untruths been critical issues in the causes of the crisis, but also in its unravelling, and the subsequent recovery. This chapter has illustrated the importance of the role of individuals in shaping perceptions of institutional culture in the IMF and the Bank of Thailand and how these cultures impacted relations between the institutions, and the recovery programme. One of the most interesting points of this chapter has been the focus on how politics has influenced the degree of information availability. Not only does this finding disclose much about the flaws in government policies, but also demonstrates why corrective measures have not been so rapidly enforced. Indeed many policies are still stuck in the quagmire of the political system. This next chapter will elaborate on the specific obstacles to reform caused by political inefficiencies.

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PARLIAMENTARY PREDICAMENTS

'...*there is a separation between policy formulation and policy implementation, leading to weak enforcement*' (Bello, 1998:127).

The crisis-recovery policies prescribed by the International Monetary Fund (IMF) could only be introduced into the Thai economic system via the Thai government, and these policies acted as the conditions for the US$17.2 billion recovery package. However, the Thai political system proved to be a key obstacle to the execution of these policies. Evidence of disregard and a lack of support for the IMF-prescribed policies, insufficient government credibility and a convoluted political system proved to be the primary reasons for the poor policy implementation. These political obstacles are also credited with initiating the crisis, for example by way of the infamous 'Asian model of cronyism'. This chapter will consider 'to what extent have policies prescribed by the IMF been implemented directly and efficiently by the Thai government?', aiming to show that political reasons were central to neglect of the IMF policies, and that little has changed to correct this. Consideration will also be paid to the subsequent research question: 'what have been the consequences of re-worked policies within Thailand, in economic, political and social guises?'

6.1: The black hole of bureaucracy

At the time of the crisis and the introduction of the IMF's recovery package the Thai government, led by Chuan Leekpai, was publicly accused in the press of being too compliant with the demands of the IMF (Bello, 1998). The Bank of Thailand representative described how the Minister of Finance at the time of the signing of the first Letter of Intent didn't want to publish it, for fear of demonstrating too much compliance with the IMF (Bank of Thailand Interview, 2005). These accusations escalated after the approval of many IMF-led foreign investor-friendly reforms, such as allowing 100 percent foreign ownership of Thai banks; protest emerged labelling the IMF 'imperialist' and 'neocolonial' (Phongpaichit, 2000). As the stabilisation programme initiated by the IMF began to show increasing signs of failure, parties gradually distanced themselves from the IMF, as demonstrated by Chuan's statement in November 1998 that '*the IMF cannot order us about as it wishes*' (ibid.:59). This section will look at how the Thai government dealt with the proposals of the IMF. It will also consider how courtesy of labyrinthine bureaucracy the IMF reform policies disappeared into a political black-hole, and how this was impacted by the rise of a new political party, the Thai Rak Thai.

'Bureaucracy' is much like 'globalisation' in that it has a multiplicity of definitions. For the purpose of this discussion, the basic dictionary offering will suffice: '*a rigid system of administration based upon organisation into bureaus, division of labour, a hierarchy of authority, etc...any administration in which action is impeded by unnecessary official procedures*'[1]. This is a fair reflection of the Thai government, which is made up of an Executive (the senior members of parliament), an upper house of parliament: The Senate, a lower house of parliament: The House of Representatives, and 16 ministries[2], as well as additional judiciary bodies (the Supreme Court, Constitutional Court, Appeal Courts and Trial Courts).

[1] Definition provided by Collins Paperback English Dictionary, 4th Edition, 1999

[2] As of 1997 (six new ministries were created under the 1997 [B.E.2340] Constitution)

The problems associated with bureaucracy have plagued Thailand for many years and are in no way accredited to an individual government party, but to the whole political system. Teamwork problems have been long standing features of Thai bureaucracy, as the ministerial system fails to give appropriate authority to key individuals in the government set-up. Dr Kriengsak explains: '**they** [the Thai government] **lacked in efficiency and were unable to work in unity. Despite the second term of Chuan's government, with an economics team composed of Dr.Supachai Panichapakdi and Mr.Tharin Nimmanhemin, expecting to recover confidence to a certain extent, the problem of unity in the economics teamwork still remained due to the chain of command in the economics team not supporting consultation or joint decision-making among its personnel**' (Dr Kriengsak Chareonwongsak MP., 2005). An example of this is Dr Supachai's role as Vice Prime Minister and head of the Ministry of Commerce. Despite the former title, he held no overriding authority with other ministers, such as Mr Tharin, Minister of Finance, and thus financial sector reform discussions through the 1990s were laborious and time-consuming processes. This is clearly a problem embedded in the structure of the ministerial set-up, which hampered the early reforms and played an integral part in the later post-crisis reforms. Dr Kriengsak MP elaborated on other political hindrances to reform, '**during the economic crisis, the cabinet adjustment and some organizational change had any, but not much, impact on the speed of reform because the bureaucracy, as a reform stimulator, still lacked efficiency as before**' (ibid.). This again points to bureaucracy as an important impediment to the reform process.

Conversely, from the perspective of the Bank of Thailand's (BoT) representative, '**the ministerial set-up didn't really impact it** [the reform process] **at all...during the period of crisis, the ministers were co-operative and behind the Minister of Finance completely. Everyone was behind him; including the Prime Minister...there was no intra-government problem**' (Bank of Thailand Interview, 2005). Admittedly the BoT is a government agency, and thus could be presumed to be supportive of the government, however it is important to consider that some views suggest that the government worked co-operatively, and efficiently.

In light of the comment by the BoT representative, it is beguiling to note that even the current Thai premier Thaksin believes bureaucracy was a key player in hindering Thailand's development, and equally played a role in fostering the crisis, '*...the Thai bureaucracy was too powerful, too torpid, and too ignorant of the business world. It lacked not only the will but also the capacity to help Thailand develop and progress. As a result, Thailand remained backward compared to many other countries....both politicians and bureaucrats were simply, "not modern". They failed to keep up with the pace of change in the world, and with globalization. The crisis of 1997... resulted from this simple and wholesale failure to understand the world*' (Thaksin (1999) cited in Phongpaichit, 2004:172).

Bello further emphasises structural political issues as obstacles to post-crisis reform. He talks of '*the real problem of bureaucratic conflicts and inertia*', exemplifying this, '*there are, for instance, over fifty government agencies responsible for planning and decision making on fiscal matters and investment projects*' (Bello, 1998:100). Within the Thai government, policies are organised and scrutinized not only by the Executive, but also the related ministries, via their respective ministers, and further approval is also required by the legislative branches of the government, who have the powers to reject and amend proposed bills and budgets. Since 1997, as a result of bringing in the 'People's Constitution', the new Constitutional Court rules on the validity of laws, regulations and government decisions; a further barrier between policy formulation and implementation, which as Bello described in the opening citation, leads to weak policy enforcement.

This section has demonstrated that for some, the complexities of the organisation of the Thai government were in part to blame for constraining and restricting the implementation of IMF policies. Issues of poor direction and inadequate leadership ran alongside the convoluted ministerial set-up, which, with respect to the research questions, suggests the implementation of IMF policies was not efficient. Claims of such inefficiencies can be sourced to high profile political representatives, and thus cannot be discredited. Evidence also suggests that recognition by the new Premier, Thaksin, of these bureaucratic inefficiencies may lead to improvements in the future.

6.2: Political Strength and Popularity Contests

An important point to emerge from close analysis of IMF policy critiques and government policy implementation is that 'acceptance' and 'popularity' of policies play an integral role in determining the efficiency with which they are implemented. This section will suggest that initial IMF policies failed to be effectively applied as a result of a lack of political acceptance. What is most interesting is that the originally proposed IMF policies were both relevant and necessary, as in many cases they have been re-proposed as key policies in the second term of Thai Rak Thai rule in Thailand, after its re-election landslide in February 2005. Under the new guise of Thaksin's popular rule these policies are set to be implemented with, previously lacking, vigour and efficiency. To effectively show that these policies are only now likely to be efficiently implemented as a result of being launched by a prominent and highly popular government, unlike the Democrats in 1997, one must briefly understand how Thaksin's party became so popular.

The Thai Rak Thai (TRT) has revolutionised Thai political history. Not only was the TRT the first democratically elected Thai party to last a full four-year term for over two decades, but they were the first to then get re-elected. Even its emphatic re-election made history with the TRT party winning enough votes to earn them significant parliamentary dominance. Such political strength has been seriously lacking for over two decades, and with it has come new-found credibility and confidence previous governments have not been able to command.

The Thai Rak Thai party was founded on 14 July 1998. Despite their anti-IMF stance, they did not use this to launch the party initially, and in fact initially Thaksin commended the Democrat government, stating they were successfully dealing with the economy in the wake of the crisis (Phongpaichit, 2004). The focus of the TRT party shifted as its members, comprising prominent businessmen and entrepreneurs, began to suffer at the hands of the collapsing economy. With global media and important figures blaming 'crony capitalism' inherent in the Thai model for the crisis, local businessmen felt the global community were pointing their fingers at them for the turmoil they were now facing. This incited national resentment within the TRT, and this resentment later became a dominant force for the party in attracting support, picking up on the similar feelings of the Thai people.

When the TRT inherited the Thai economy, growth was sluggish with the economy expanding by a mere 2.1 percent in 2001. Fourteen percent of the population were living below the poverty line. Many businesses showed no sign of growth, many suffering still with debt issues, and none recruiting. The legacy of the crisis of 1997 was obvious. In 2004, after Thaksin's first term in charge, growth was 6.8 percent, and poverty was already below 10 percent. Time Magazine writes that '*Thaksin's policies have turned him into something of a popular hero, hailed by his fans as the decisive, no-nonsense leader who has lifted Thailand from the doldrums of the Asian financial crisis, restored Thai pride, and lavished cash on the forgotten backcountry*' (Schuman, 2005:16). As mentioned previously, this revival of the Thai economy came from a two-pronged programme focused on industrial promotion and increasing credit availability, both stimulating the economy to pre-crisis levels of growth. Morgan Stanley expects Thailand's GDP to reach 5.7 percent growth this year, despite December 2004's tsunami which is believed to have caused in excess of US$1 billion worth of damage (ibid.).

It is therefore clear why many believe the work of the TRT is for the benefit of Thai people – unlike Chavalit's and Chuan's governments who, as discussed at the beginning of the chapter, were accused of being too IMF-compliant, serving only in the interest of foreign investors. In an interview with the civil society group Democratic Confederation Dr Weng explained the '**the government didn't listen to people who didn't want to go into the IMF programme. Chavalit signed the opening contract with little conferral. Chuan then came into government and signed the 2nd LoI of the IMF. Many of the same changes were proposed, all benefiting foreigners and further troubling the Thai people and their economic status**' (Dr Weng Tojirakarn, 2005).

The election of the TRT in 2001 effectively marked the end of any IMF-policy implementation, especially the larger-scale programmes such as privatisation of state industries. Despite being a multibillionaire businessman, the atmosphere of Thaksin's party and its policies was one of protectionism, and nationalism – somewhat reminiscent of the import-substitution days of the 1970-80s.

It is no secret that the TRT party and Prime Minister Thaksin owed their initial success to their anti-IMF stance and in the '*overturning of some hurtful International Monetary Fund policies that had been prescribed to his predecessor*' (The Straits Times, 2005). Indeed the TRT enforced a model which shifted away from the IMF's neo-liberal model and focused on what Pasuk and Baker call the 'developmentalist' view, '*that in catch-up economies, government has to play a positive role in protecting and promoting firms and sectors to overcome the disadvantages of competing against more advanced economies*' (Phongpaichit, 2004:100). Thaksin used the analogy of requiring a handicap should one want to play golf with Tiger Woods, in the same way that Thailand requires protection and support in order to perform and compete fairly in a global economy (ibid.).

Thai Rak Thai party was made up of capitalists, capitalists who had survived the crash of 1997 and wanted to harness the power of the state to bring back their wealth, and the wealth of the Thai economy. No one wanted to live in a state of recession, and the Thai Rak Thai party saw this as an opportunity to implement their methods to regenerate the Thai economy. They simply did not believe that reforming in-line with IMF demands was the way to do this.

Thaksin was essentially a businessman, and a successful one. His vision for Thailand was to run it just like a business, as he explained in a speech in 1997: '*A company is a country. A country is a company. They are the same. The management is the same. It is management by economics*' (Chumphon, 2002), hence the notion as Thaksin as 'Thailand's CEO'. With this attitude he adopted a similar approach to the better-known Asian developmentalist economies, Japan and Taiwan. The two-pronged initiative focused on industrial development, promoting and nurturing specific sectors, and also the availability of credit, directing government funds to stimulate the economy. At the same time Thaksin built new walls between the Thai economy and the global economy, restricting the role of foreign firms and taking away the foreign ownership facilities that the IMF put in place via the Chuan government. This directly contradicted many of the conditions and policies outlined in the Letters of Intent.

What was crucial about Thaksin's first term in government was the absence of any major reform which might have incited a division in public sentiment, and reduced the TRT party's popularity. This means that no controversial policies, nor policies which undermined his nationalist stance, such as those suggested by the IMF, were proposed throughout the first term. By the end of the first term, Thaksin had appeased the crisis-stricken population and become a national hero. In February 2005 the TRT party won a second land-slide victory giving themselves an overwhelming majority in parliament. This will permit the government to pass more controversial reforms, as there is no significant opposition, paving the way, perhaps, for more radical reform. Thaksin stated after confirmation of his victory in 2005, '*I will aim to restructure the economy over the next four years. (In the first term), the government did not have time to do it because we were busy getting the economy out of the economic crisis*' (Chaitrong, 2005(20)).

The Nation newspaper produced an article on February 9th 2005 outlining the plans for the second Thaksin term. One of the integral policy headings was 'Economic and Financial Reforms', which is remindful of the initial policies outlined by the IMF in the LoI's. Table 6.1 shows the policies planned by Thaksin and the Letters of Intent which state the same policies.

Thaksin Government Policies Second Term 2005	**Letters of Intent (1997-1999)**	**Description**
Privatisation of state enterprise	LoI 2,3,4,5	IMF planned to privatise energy, public utilities, communications and transport sectors. Plans also included reducing state ownership of the national airline (in conjunction with a partnership with a foreign investor), as well as the Bangchak petroleum company and part of PTT Exploration and Production. Plans were due to be submitted by June 1998.

Liberalisation of telecoms sector	LoI 3	IMF planned an amendment of the Establishing Acts of the Telephone Organisation of Thailand (TOT) and The Communication Authority of Thailand (CAT) to facilitate corporatisation and privatisation by end of 1999.
Financial sector restructuring	LoI 1,2,3,5,6,7	Key reforms suggested by the IMF: tightening of loan classifications, and attaining international best practice standards of accounting, recapitalisation programmes, streamlining of bankruptcy procedures, improving disclosure standards, and liberalisation of foreign equity investment – with full liberalisation to be achieved within ten years.

Table 6.1: Thaksin government second term policies and their respective LoIs

In 1997 the above policies were key-stone reform policies of the IMF. However suggestion of further privatisation and liberalisation in the wake of the crisis only incited further public rage against the IMF, as Thai people believed that with these policies the IMF were 'selling-off' Thailand to foreign investors (Pongpaichit, 1998). These policies, unlike the policies implemented by the TRT during their first term, were heralded as not in the interests of Thai people. Indeed during the ensuing period of nationalistic fervour (1997-1999), characterised by public backlash and governments distancing themselves from the IMF, it would have been unthinkable to promote the privatisation of state-owned industries; indeed, it would have been political suicide. Nevertheless, these policies have returned to the public arena, in the guise of TRT policies, in an environment with little political opposition to challenge TRT decisions. Whilst trade unionists have been vocal in the press, public outcry regarding these proposals is currently subdued and there seems little evidence to suggest the TRT will face significant barriers to the implementation of these policies during their second term.

In conclusion, this section has pointed to political strength and political acceptance of policies as important requirements for successful and efficient execution of controversial policies. These currently proposed reform policies, when advocated by the IMF, did not appear to have sufficient political and public support, and thus they disappeared from the reform agenda. Eight years have since passed and the political situation faced today is in stark contrast to that of 1997, providing the current TRT party with a strong position from which to launch policies in an environment lacking a sufficiently significant opposition. A further point to note is that Dr Kriengsak MP also explained that the IMF's policies, when initially proposed, tended to be technically complicated, further failing **'to win understanding and acceptance by policy operators and people'** (Dr Kriengsak Chareonwongsak MP., 2005). These more unpopular policies therefore remained stuck in the quagmire of the political system. The TRT seem to have learnt from this, and unlike the IMF, have effectively 'sold' their policies to the public in simple and popular language.

6.3: Conclusion

This chapter has outlined the two main political issues which arise when carefully analysing obstacles to policy implementation. Firstly, this highlighted the problems of government bureaucracy, demonstrating the inherent lack of efficiency in the Thai political administration, contributing to slow decision making. Secondly, this chapter discussed the role of political strength as an important and in many ways, necessary, tool for the employment of controversial policies, focusing on how the Thai Rak Thai party gained such a dominant political status, and how this promises to execute policies once proposed by the IMF.

Unfortunately for the IMF's policies, this chapter has helped to prove that the government was an essential barrier to their progress. Evidence suggests that if a government has sufficient political will, and in the case of controversial policies, political popularity, policies can be implemented quickly and efficiently. What made so many of the IMF's policies 'controversial' was that they lacked simplicity, and thus few people were able to comprehend them, let alone support them. With the failure of the IMF's initial stabilisation programme society became suspicious of their recovery programme, and nationalistic fervour swept through Thailand. The issues of social acceptance and the impacts the crisis had on Thai society will be explored in the following chapter as further reasons for the rejection of the IMF recovery policies.

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WAVING THE THAI FLAG: THE ROLE OF SOCIETY

Social acceptance of policies is almost as vital as political acceptance. Social revolts and mass protests bring key debates into the public forum. Social rebellion puts a lot of pressure on governments, and can make the difference between a government staying in power and having to step down. This was very much the case in Thailand from the 1990s to the current day. It was not long after the Baht collapsed and with ensuing recession that International Monetary Fund (IMF) policies became very unpopular. At the same time, both Chavalit and Chuan governments were deemed incompetent and too subservient to the IMF (Phongpaichit, 2000); the situation was made even worse by the economic failure of the IMF stabilisation package. This chapter will consider how Thai society was shaped by the crisis, inducing an anti-IMF sentiment; consideration will then be paid to the role of nationalism in the rejection of globalising policies, such as privatisation and liberalisation. The chapter will conclude by focusing on the specific role of anti-foreigner laws in the Thai banking sector, and how these have evolved since the crisis.

7.1: Fragmentation of society

This discussion will look at how the Thai economic boom of the early 1990s caused massive cultural change, in part caused by the new dominance of the high earning secondary and tertiary industries which offered incomes unparalleled by the previously dominant agricultural sector. It will also demonstrate that as a result of this change, Thai society, especially in Bangkok, became even more vulnerable to a change in the economic climate. This was also because the concept of wealth, and its manifestations, became central to urban Thai culture. This new consumerist 'spend-culture' illustrated how people had grown to enjoy and expect their extravagant and materialistic way of life. This will help to contextualise the pain that was felt during the subsequent recession, as many urban Thais went from having everything, to nothing. However, both the boom and the bust contributed to a significant fragmentation of society shaping peoples' attitudes and this eventually led to an anti-IMF and anti-globalisation backlash once the crisis hit. This is discussed shortly. This section will also point to some of the ways in which the subsequent social effects of the crisis made further IMF policy implementation difficult, and that the views of society played an integral role in putting pressure on the Thai government to resist further globalising policies.

After the military coup of 1991, Thailand, led by Prime Minister Anand Panyarachun, began to 'globalise'. Thai society underwent radical transformation during the period of liberalisation and privatisation, evolving from a predominantly rural population, to surging middle-classes, wealthier upper-classes and a youth dominated by aggressive consumerism (Phongpaichit, 1998). Nowhere was this more obvious than in Bangkok. 'Globalisation' was the new buzz-word for the economy, with Thai businesses both expanding nationally, and internationally through foreign investment, generating a boom. This can be seen as a fairly radical move, for a country who had escaped any previous colonial rule (Bechstedt, 2002). As a result of this history of sovereignty, Thailand is often reputed to have strong characterisation of 'Thainess' from prominent ethnic values to a strong traditional heritage, still maintained by most strata of Thai society today.

The extent of this shift towards 'globalising' policies is perhaps best reflected in the sudden increase in consumerism exhibited by most of the urban dwellers during the boom. The boom gave most Thai city workers access to levels of income they had not before imagined. Reynolds uses the example of traffic as an indication of the speed of wealth accumulation, stating that expensive international cars turned from status-symbols to regular household assets almost overnight, to the extent that Mercedes-Benz enjoyed its second largest market share, following Germany, in Thailand (Reynolds, 2002). Peoples' jobs and what they earned now adopted an even more important role than ever before, with the focus on high earning banking and construction jobs, the two most booming sectors.

Thai youth are documented as reflecting this new wave of consumerism more than any other part of society. Chulalongkorn University students, the most intellectually-privileged students in Thailand, are the best example of this, stereotyped by their Gucci handbags, platform shoes, cellular phones and BMWs (Bello, 1998). Fashion and music genres soon also reflected Western styles and tastes, which Pasuk and Baker describe as '*thoroughly urban and thoroughly globalized*' (Phongpaichit, 1998: 158). Rap, rock and reggae eclipsed the folk music which had been part of Thai culture for so long, and the music industry, much like the whole economy, boomed. The role of television also increased during the boom period, and by 1996 practically every urban household had a television, and 90 percent of rural homes had one too (ibid.). Television programmes further reflected this sense of consumerism as characters were clothed in fashionable Western clothing and settings were typically lavish.

Modern Bangkok still reflects increasing materialism with regards to consumption trends. During fieldwork in Bangkok it was evident shopping remains the national sport as it was during the days of the boom. The main road in Bangkok city centre, Thanon Rama I, houses Gucci, Burberry, Louis Vuitton and other international fashion-houses which symbolise affluence. I witnessed students and school children playing with their super-slim mobile phones whilst carrying Chanel bags on the sky-train, and nothing is more emblematic of this nouveau-riche youth than the eight-story tall Mahboonkrong (MBK) shopping centre targeted specifically for teenagers and students, filled with boutiques, shops and stalls and located fittingly next-door to the Chulalongkorn University campus.

The benefits of the boom did not filter down through all of Thai society, however. Pasuk states that '*half of all the income gains of the boom went to just one tenth of the population*' (ibid.:285). Inequality soared and in 1994 Thailand found itself in the top five countries in terms of inequality, alongside countries like Guatemala and Honduras (ibid.). This was before the crisis.

The social implications of the boom were dramatic, however the social impacts of the crisis were even more so. Unemployment was one of the most evident initial consequences and unsurprisingly with its concentration of banking and construction enterprises (the industries hardest hit), Bangkok suffered the most. Table 7.1 demonstrates the change in Bangkok labour statistics between 1997 and 1999.

Key Indicators	1997	1999
Unemployed	56,015	210,081
Total Labour Force	3,945,068	4,082,053
Unemployment Rate	1.4	5.1

Table 7.1 Bangkok Unemployment Statistics 1997-1999
Source: Labor Force Survey, National Statistical Office (NSO)

In an interview with the civil society group Focus on the Global South, their representative Chanida Bamford explained that realisation of the fragility of the labour market was one of the biggest impacts of the crisis. She explained that the perception of job security had played a big part in Thai culture, especially since the agricultural sector had begun its decline in the 1980s:

'Rural populations had always perceived the secure jobs were those in the factories, and this is why they sent their children there, and made them so dependent on them. This is because Thai agriculture is now stagnating. During the crisis the factories closed and have since moved to Laos and Cambodia and the Burmese borders to exploit Burmese workers. Initially rural people had viewed the service sector as the only way out, and now they realise that it's not secure either. Wages fell dramatically in this sector after the crisis, and they've increased a little now. Even the policies of the government have meant that prices of goods have fallen, especially with the Chinese border opening up. This has had a big impact as goods are much cheaper, and all goods are, so all sectors have been affected by this, not just the agricultural sector' (Bamford, 2005).

This shows how the crisis left large portions of society very vulnerable, not solely because of unemployment resulting from the recession, but also because the export markets upon which they had relied were now more open, and more competitive, and thus made recovery even harder. One can therefore see why rural populations felt a degree of resentment towards not only the causes of the crisis, but also the liberalising policies which had been implemented before and after the crisis.

What is also significant, and somewhat ironic, is that the representative of Focus on the Global South explained that rural populations saw the secondary and tertiary sectors as offering more job security, when Tohpan at Citigroup explained that those in the banking sector who were forced into unemployment **'in worst case scenarios they moved back to the country and re-engaged in agriculture'** (Tohpan Tuchinda, 2005). This implies that the primary sector actually had a greater level of resistance, and thus job security, in the time of economic crisis despite a stagnating market for agricultural goods. This is corroborated by Bello, who states that '*an average of five migrants had returned to each of the country's 60,000 villages by December, according to NGO estimates*' (Bello, 1998:3). Dr Kriengsak MP explained that this urban-rural migration **'later caused a huge hidden unemployment problem'** (Dr Kriengsak Chareonwongsak MP., 2005). However, many Thai rural specialists argue this wasn't entirely the case (Parnwell, 2002; Rigg, 2002).

The poverty implications of the crisis were also profound. According to the World Bank, the number of those in poverty rose by 3 million (World Bank Research Report, 2001). Rural poverty accounted for 97.63 percent of all Thai poverty in 1998, according to the NSO's Socio-economic survey, but the share of poverty in Bangkok more than doubled from 0.23 percent to 0.58 percent from 1996 to 1998 respectively. Poverty analysis by employment sector also demonstrates how badly the agricultural sector was hit, as shown in Table 7.2:

Industry of Head of Household	Percentage of Poverty Incidence 1996	Percentage of Poverty Incidence 1998
Agriculture	17.89	21.06
Manufacturing	6.27	5.78
Construction	11.05	14.45
Trade	10.98	7.45
Transport	9.37	5.49
Services	11.35	10.13
Inactive	15.06	12.58

Table 7.2 Poverty by industry of employment of household head in 1996 and 1998
Source: Socio-economic survey, NSO

As Table 7.2 shows, construction and agriculture were severely hit by the crisis. The construction figure is generally due to the collapse of the sector after the crisis, as the real-estate boom and property oversupply had been important contributors to the causes of the crisis. Agriculture suffered after the devaluation of the Baht in 1997 as this meant imported production inputs increased in price. The industry was also not helped by the global decline in commodity prices. Net poverty in Thailand increased as a whole when measured using the Gini poverty coefficient, increasing from 0.477 in 1996 to 0.481 in 1998 (Chongthomdi, 2000).

According to Bello depression was one of several consequences of the economic freefall, as was '*a breakdown in community trust*' (Bello, 1998:5). Chanida, from Focus on the Global South, spoke also of another social ill which derived from the economic and social breakdown caused by the crisis: the problem of drug use and trafficking. Chanida explained '**people who lost their jobs turned to drug selling. The price of five methamphetamine pills was the equivalent to the daily minimum wage so there was no incentive to work!**' (Bamford, 2005). Unfortunately the growth of the drug problem has caused further social unrest, due to the hard-nosed response of the government in an attempt to deal with the issue. '**Thaksin was quick to pick up on this issue, and announced a huge "war on drugs". However his methods of control were barbaric, and over 2000 people were killed on huge raids, of people accused of selling drugs. Police argued it was only 1000 and the others were killed by fellow drug suppliers, but it is commonly accepted that the government was responsible for all of them**' (ibid.). Indeed the government has since been condemned by the National Human Rights Commission – although this condemnation has had little impact on government policy. One of the most interesting points of the drug issue is the extent to which uncharacteristic members of society were involved. Chanida described '**to highlight the desperation of people to the extent that they indulged in drug trafficking, old women and whole families were found to be caught up in it, who are the people you would least expect**' (ibid.). This very clearly demonstrates the extremity of the social response to the crisis, as people were desperate to survive. Equally a similar pattern was witnessed in the field of prostitution, as NGO estimates show that it has increased substantially since the crisis, Chanida explained. This is '**easily noticeable in the area around the main train station in Bangkok (Hua Lum Phong), where the migrants enter. The public are not so keen to stop this, as they see it as a way that women can work as there is always a customer**' (ibid.). This implies that prostitution is seen as more socially acceptable than the drugs trade.

Prostitution is an infamous part of the Thai tourist culture, and Patpong district, suitably positioned next to the financial district of Bangkok (Sala Daeng) has long been an attraction for businessmen and tourists alike. Since the boom the incidence of prostitution has spread to the other side of the city, along Thanon Sukhumvit, which houses most expatriate workers, and wealthier sectors of the urban population, cumulating around the Nana district. The government has turned a blind eye to this industry and unlike the drugs war, has not clamped down on it. Despite its illegality, Bello states that '*commercial sex work provides young women and the families who depend on them with more income than any other unskilled job in Thailand*' (Bello, 1998:221).

Considering the extent to which most people were affected by the crisis, especially the dominant rural population who were hit hard not only by the collapse of the industrial sectors, but also the collapse of the agricultural sector due to the liberalisation policies, it is unsurprising that there was a social backlash after the crisis. In 1998, 1999 and 2000 farmers actively demonstrated against further financial liberalisation policies, demanding that a new government focus be directed at the poor rural sector (Phongpaichit, 2004). The civil society group The Assembly of the Poor renewed their stance against large-scale infrastructure projects and paddy growers and cattle raisers stampeded the Bangkok suburbs to protest against the lack of rural support (ibid.). The governments of Chuan and Chavalit were seen in particularly bad light once they became tarred with the same brush as the IMF's globalising policies which crippled their economy. Assessing the experience of the majority of society it is understandable why the new Thai Rak Thai (TRT) party, whose focus was on the people and the rural population, were welcomed with open arms. They were simply a breath of fresh air from the neo-liberal Democrats. Even the TRT's slogan 'Think new, act new, for every Thai' and name, meaning Thai Love Thai, echoed a sense of social welfare, something the previous governments had lacked; '*the party's name and symbol expressed the theme of national defense*' (Phongpaichit, 2004).

This section has shown that the whole of Thai society was seriously shaken-up by the crisis of 1997, as the impacts rippled out of Bangkok, through to industrial and peri-urban areas, reaching as far as the rural areas. The more visible impacts were the increasing level of urban-rural migration, as people found living in urban areas increasingly financially unviable, and the increase in informal sector activity, such as drug trafficking and prostitution. Poverty and unemployment both increased in the wake of the crisis, yet the extent of underemployment and hidden unemployment will never really be known. It is therefore understandable why individuals were keen to stop further liberalisation policies from going ahead, and why there have been increasing calls for more social safety-nets to protect the fragile Thai economy, and to renew the focus on domestic development, rather than globalising the economy further.

7.2: Nurturing the inside: the role of nationalism

The finger of blame for the crisis which hit Thailand was pointed at the Thai people, the Thai government, the global financial market, and the IMF, all at different stages in time. Indeed the direction at which the blame is pointed still varies. The common feelings which emerged progressively within Thai society were anger, and through blaming the crisis on foreign institutions, a sense of nationalism was born; a need to protect themselves and focus on the welfare of Thai people rather than playing on the global financial playing field. This can be characterised by the emergence of the Thai Rak Thai party, which launched itself with policies of self-sufficiency and safety-nets for the rural population. This section will consider the role of nationalism, as outlined in Chapter 5, as a barrier to the implementation of IMF policies of further liberalisation, privatisation and appealing to foreign investors.

Paul Krugman famously once stated that the Asian crisis was '*punishment for Asian sins, even if the punishment was disproportionate to the crime*' (Krugman, 1998). Initially even the Thai people were of this opinion. The Bank of Thailand representative explained, '**at the beginning of the crisis the presence of the IMF led to the popular perspective of "It's My Fault". This was a very Buddhist approach, as there was a sense of repent, and that this was their own fault for indulging in their excesses, and that they must have done something wrong previously to deserve this. It was a very pacifist attitude, a real sense of modesty**' (Bank of Thailand Interview, 2005). This conveys that for many the crisis was perceived as a punishment for their over-indulgence in sin: materialism and consumerism. It is important to note that Buddhism plays a key role in Thai society, and governs attitudes towards government institutions and the respect of the King. In essence this emphasis on religion at a young age helps to foster national pride, as '*nationalism and Buddhism are closely interlinked*' (Terwiel, 1975:63). However despite this initial Buddhist sense of responsibility, the Bank's representative continued to describe how, with the increasing social impacts of the crisis, this attitude soon changed: '**overtime however, as more and more people lost their jobs and the credit lines were cut, there was a real sense of anger in the Thai people, and shocks were felt across the board. Despite the initial reactions, people ended up very angry**' (ibid.).

One of the main strands of nationalism which came to light after the crisis was the concept of localism, which reasserts the importance of rural values and traditional village communities. This emerged as a populist and nationalist reaction to neo-liberalism, and reflected Thai society's general unease toward globalisation (Hewison, 1999). Localism was in part launched by King Rama IX, in his birthday speech of 1997, as he voiced the importance of self-sufficiency and the irrelevance of being a 'tiger' economy (Hewison, 2001, Phongpaichit, 2000). In conjunction with the anger and frustration faced by much of the Thai population, the words of the King stimulated an anti-market sentiment which acted as the foundation for public nationalist outcry. According to Dr Kriengsak MP, '**people in society had the idea of an anti-liberal economic system with free competition and the idea of concentrating more on economic and social development in local communities, and turning to more self-reliant production**' (Dr Kriengsak Chareonwongsak MP., 2005). In response to these public views the IMF attempted to increase focus on social safety nets in their reform policies, however the mere presence of the IMF only continued to arouse further nationalist resentment (Hewison, 1999).

This sense of nationalism was encouraged by the atmosphere of 'them' and 'us' created by many of Thailand's public intellectuals. Tienchai Wongchaisuwan, a famed Thai academic, launched a series of informative books in conjunction with the Thailand Research Fund (TRF) promoting this sense of nationalism and a division from the rest of the global society. Titles such as *Thailand in the Age of Cultural Slavery, The Global Crisis and the World Bank's Plan to Take Over Thailand* and *Declaration of Independence from the IMF* incited feelings of national vulnerability and striking resentment towards the IMF and the World Bank.

Dr Kriengsak MP explained how most Thai academic literature portrayed a very anti-IMF sentiment, and how extreme these views became: '**most documents in Thai language during the crisis were negative reviews on the role of the IMF. The major criticism of the IMF was that it served as a superpower instrument to take over Thailand's economy. This was reasoned from the fact that policies applied by the IMF to many countries, e.g. selling government property, privatization, investment liberalization, and the relaxation of restrictions, were promoted among foreigners so that they could take over more enterprises in Thailand. Moreover, another document analyzed that this superpower, plus the IMF, the World Bank and the Hedge Fund all worked as if in one process (conspiracy theory), planning to attack the value of the Thai Baht and other Asian currencies in order to bring the economy into decline. This would then let the IMF enter to pressure Thailand into amending laws and eventually to take over Thailand's economy**' (Dr Kriengsak Chareonwongsak MP., 2005). Obviously most of these views are very speculative, as there is little evidence available to substantiate some of the more extreme theories. However Dr Kriengsak offers an important perspective on how Thais' views may have been shaped by the literature available. These would no doubt have re-enforced already negative views of the IMF and other international institutions. International academic literature has also heavily influenced the global perception of Thailand, and understanding how it has evolved over the past decades. Due to the lack of availability of Thai publications for the international community, most views have been developed based on research done by international intellectuals.

Public protest made further IMF recovery policies very unpopular. The key issues they campaigned against were those of liberalisation and privatisation. The issue of privatisation of state-owned companies has become an important and very public issue in Thailand. Since the suggestion was first put forward by the IMF in 1998, in a Letter of Intent (LoI), general public sentiment has been against it. Many of the reasons against these proposals stem from the fear of foreign firms or investors taking over their livelihoods. The case for not privatising the Electricity Generating Authority of Thailand (EGAT) has been made very public by their Trade union. The head of the union, Sirichai Maingam, asserts '*Egat should not be privatised because electricity generation is a national asset that involves all Thais and should not be sold to the private sector*'(Thongrung, 2005).

Dr Weng, of the civil society group Democratic Confederation, described how he has discussed plans for privatisation with the current Premier, Thaksin. Dr Weng showed me a document signed by Thaksin stating that he agreed to the following suggestions if privatisation of state-owned enterprises (SOEs) went ahead. This is a rough translation of the document given by Dr Weng:

> '**State Owned Enterprise Act 1999: agree to introduce new laws to improve efficiency and development of SOEs. The national act is to replace the old act for SOE funds act, to allow the reconstruction of the structure of SOEs to increase the efficiency of management and quality of service provided and to reduce the government's budget burden. The aim is also to promote Thai people to take ownership of Thai SOEs so they would truly be public.**' (Dr Weng Tojirakarn, 2005)

This statement (roughly translated) was signed off by the Prime Minister's President of the Advisory Board designed to repeal the 11 acts implemented by the IMF in the gap between the Chavalit and Chuan governments. Thaksin also signed the document agreeing that EGAT should not be privatised. Dr Weng therefore voiced significant frustration towards the current proposals for EGAT privatisation announced as part of the TRT's second term policies, as discussed in Chapter 6. As Dr Weng clarifies, Thaksin has simply reversed his decision.

Dr Weng and his civil society group have also been ardently against current liberalisation plans. His view is that '**the government needs to protect the benefits of people - or they do not have the legitimacy to be considered a government. For example, if Thailand was fully liberalised into the global economy, all the small grocery shops would be destroyed by foreigners. This would be a traitor's policy for the country**' (Dr Weng Tojirakarn, 2005). This concept of auctioning off the country to outsiders is central to most Thai anti-liberalisation campaigns. Hewison explains '*liberalisation is firmly opposed, with the government accused of selling out the country to foreigners, at the behest of the IMF*' (Hewison, 1999:11). Dr Weng also explained that Thailand is still very immature, and adopts a developmentalist view as outlined in Chapter 6, that the Thai economy needs nurturing before it is ready to compete effectively on a global platform; '**it would be stupid to liberalise especially now, the economy is still developing. Perhaps a five-year plan is required, the Thai people need to build up bargaining power, and then free-trade can be considered**' (Dr Weng Tojirakarn, 2005).

Much like Hewison, Dr Weng is aware that these liberalisation plans originated with the IMF, however he is sceptical that the specific liberalisations mentioned in the Letters of Intent would be viable in practice; '**there was significant emphasis on liberalisation in all of the LoI's. The health sector, for example was mentioned as was education, but this is a stupid idea, as it would deprive people of health care. Farmers don't even earn 1000Baht per month, how could they afford to pay for schooling for their children?**' (ibid.). This is perhaps taking the LoIs slightly out of context, although suggestions for reformed social provisions are frequently documented, and according to Focus on the Global South talks of privatisation in healthcare and education frequently made the headlines. Underpinning Dr Weng's views on liberalised healthcare is his fear of price augmentations on staple provisions. He argued that within the next five to ten years alone, should such liberalisation occur, one could expect the price of the drug Paracetamol to increase 20-fold. As a practicing doctor running his own surgery Dr Weng is horrified that this could be the future of Thai healthcare.

This section has demonstrated that initially Thai society felt responsible for crippling their economy and finding themselves in increased unemployment and poverty. However, as time has progressed there has been an increasing sense of victimisation of Thailand, calling for a return to more self-sufficient ways – although these appeals are commonplace in nationalist rhetoric. This view has become increasingly popular due to public support from influential individuals, such as the King, public intellectuals and civil society groups. Questions have since been raised publicly about the right to privatise utilities companies, and the viability of other liberalisations once outlined by the IMF. Neo-liberal subservience was a key factor leading to the stepping down of the Democrat governments, and it will be interesting to watch the current unfolding of unpopular policies recently proposed by the TRT party, as described in Chapter 6.

7.3: Keep the foreigners out: nationalism in the banking sector

It is no secret that the Thai banking sector is an arena of restriction and regulation for international banks and finance providers. Despite a brief period of relaxation of international rules at the time of the crisis (as enforced by the IMF), the banking sector has always been characterised by a degree of 'anti-foreigner' practices. This section will illustrate how anti-foreigner and populist sentiment occurred in one sector, looking more closely at the difficulties faced by foreign banks operating in Thailand, and how this has become harder since the crisis of 1997.

7.31: Family Banking

The relaxation of restrictions on foreign finance during the 1990s is arguably one of the many causes of the crisis. The creation of the Bangkok International Banking Facility (BIBF) encouraged borrowing from abroad, making the process of borrowing easier and attracting investors through the implicit guarantees on investments from the Bank of Thailand. However, besides this brief period of influx of international capital, it seems that it is the nature of the Thai banking sector to remain as closed and as 'Thai' as possible. Many Thai banks are family owned, and this, as the Citigroup representative mentioned in Chapter 5, helps explain the lack of merger activity and concentration in the banking sector. Even the national taxation structure lends itself to private-ownership, as corporate tax regulations favour debt-financed firms, rather than equity-financed operations. This is because interest payments are considered deductible expenses for corporate income tax, unlike share dividends, which are not (Drysdale, 2002). By having a debt-financed, rather than equity-financed firm, full ownership and management can remain in the family, rather than being spread across shareholdings.

As discussed in Chapter 5, competition is a big issue in the Thai banking sector, again due to the family banking connections. Tohpan, the Citigroup representative explained '**there are too many banks in Thailand, and they won't merge...as there are lots of private banks which are family owned and run**' (Tohpan Tuchinda, 2005). This means ultimately there are fewer opportunities for foreign banks to enter the market. Banking competition was even harder before the crisis, as initially Thai commercial banks and finance companies had been very restricted in the specific services they could offer, but in 1992 this was changed to permit them to carry out new businesses, unrelated to their initial core business (Drysdale, 2002). Examples of these new businesses are consulting, fixed income trading (the buying and selling of bonds) and fund management. This meant that international finance companies couldn't even corner new areas of the financial market, in services they had offered for years internationally with proven experience.

Veerathai Santiprabhob, of the Siam Commerical Bank (SCB) explained that recent developments in Thai banking have highlighted the difficulties of being family owned because this may detract from the profit-maximisation goal, and be influenced by inside interests. The crisis demonstrated clearly the problems caused by adopting investments on grounds other than profitability, for example the wanton property loans which were accepted despite property supply entering a surplus and thus were unlikely be profitable. Due to the lack of regulation regarding loan requirements pre-crisis, the extent of inappropriate investments was fairly large-scale. This was reflected by the extent of bankruptcy once the property bubble had burst. Santiprabhob states: '**SCB are lucky that they are not family owned, as for example, Bangkok Bank when leasing companies and providing loans they have to make sure that decisions are made which are in the families' interests and not the banks so to speak**' (Santiprabhob, 2005).

7.32: Capital Controls

Well before the crisis, capital controls played an important role in Thai banking. These were significant barriers to foreign bank integration in the Thai market. There were four main capital controls:

1. Interest rate ceilings – limits to both the borrowing and lending rates of interest, adjusted during economic shocks
2. Direct capital controls – strictly controlled outgoing capital to ensure the credibility of money supply controls. Outgoing foreign exchange payments required strict approval, and no Thai investors were permitted to hold foreign exchange in overseas investments.
3. Foreign exchange controls – limits on commercial banks on net foreign exchange positions. Sine 1984 no net position could exceed +/- US$5 million, or 20 percent of net assets held by the bank (whichever was smallest).
4. Taxation on foreign borrowing – this was at times withheld by the Ministry of Finance to vary the levels of foreign capital inflows, in order to act as a stabiliser.

(Adaptation of Drysdale, 2002)

These controls severely restricted destabilising capital movements and transactions based on speculation. The limits however significantly inhibited capital movements in and out of Thailand, and acted as a deterrent for foreign investors. These controls were all relaxed during the period of financial liberalisation, and this relaxation of control was followed by an obvious increase in the role of the foreign banks and finance companies in Thailand from 1990 (Phongpaichit, 1998).

After the crisis capital controls returned to favour and the Bank of Thailand implemented a series of controls governing foreign exchange, transactions ceilings and loans to non-Thai residents. This again, restricted the role of foreign banks. Success of capital controls is best witnessed in Malaysia where a complex package of ceilings and exchange limits helped to resolve many of their financial frailties highlighted by the Asian crisis of 1997.

7.33: The Financial Master Plan

In 2002 the Governor of the Bank of Thailand, M.R. Pridiyathorn Devakula announced a new Financial Sector Master Plan in his speech 'Commercial Banking and Financial Services: our Vision for Thailand'. In this speech the Governor emphasised the importance of the banking sector to the Thai economy, with its share of GDP increasing from three percent to eight percent in the last 20 years, representing its fifth largest industry.

The Plan outlined areas of weakness in the Thai banking sector, for example the lack of banking activities in rural and low-income areas, citing that 54 Thai districts lack both a branch of a commercial bank or financial institution (M.R. Pridiyathorn Devakula, 2002). The Governor drew on foreign experiences, such as the unique role of the South African Standard Bank in the provision of banking services to the poor, and the Canadian Financial Services Taskforce's ability to provide quality services to all members of its population, regardless of income or location.

The Master Plan was accepted as a renewed step by the government to further disadvantage foreign banks, whilst providing new opportunities for Thai banks (Tohpan Tuchinda, 2005). Key initiatives are outlined in the master plan to revolutionise the role of the Thai Bank for Agriculture and Agricultural Cooperatives (BAAC), and provide new services designed for low-income households. The role for foreign banks is simply to fill the gaps left behind, for example by encouraging further rural banking.

Tohpan explained how a foreign bank like Citigroup would have to change in order to achieve a greater role in Thai banking, and why Citigroup would not be adopting these new alternatives for Thai expansion:

'If Citigroup's presence in Thailand was to change and become a subsidiary, then they would be allowed to have four branches. Only one of them could be in Bangkok. Currently they are allowed no branches. If they become a subsidiary however, they will have to give up governance to a third party 'to become more transparent' in the eyes of the Thai government. However this has been discussed at Citigroup, and if their Bangkok presence changes, their credit rating in Bangkok would then reflect the credit rating of Thailand, and not the triple A rating of their company, ie. Citigroup. Many of Citigroup's clients said this would impact on them negatively and thus they would leave, and as a result Citigroup will not be altering how they work in Thailand' (Tohpan Tuchinda, 2005).

This is a result of the post-crisis shake-up instigated by the Finance Minister. As a result of this, it can be argued that there has been a reversal of liberalisation in the financial sector and a re-entrenchment of the sector. This is very different to the pre-crisis era, when more liberal policies allowed foreign firms much greater access to the Thai financial sector.

The only real evidence of the potential for further foreign competition in Thai banking is the Plan's statement that '*after three years and contingent on suitable economic conditions: new commercial banking licenses may be issued to new foreign investors to increase competition and efficiency in the financial sector*' (Bank of Thailand, 2004:5).

7.34: Activating the Developmentalist View

In line with the developmentalist view as discussed previously by Dr Weng, and also in Chapter 6, there has been a recent focus on nurturing Thai banks to become of international calibre, and fit to compete on the global stage. This nurturing has been done by protecting these firms from foreign competition using the previously described restrictions on foreign activities. Veerathai, head of the Equity Investment Division at SCB, explained in an interview how the role of foreign banks in the 1990s highlighted key lessons for the existing Thai banks, emphasing the importance of the role of scale. He also described the change experienced in Thai banking since the crisis, initiated with the benefit of hindsight. While local banks grew, foreign banks were simultaneously suppressed by regulations and controls:

'For the last few years SCB has implemented a "change programme", where they have gone through strengthening their distribution channels, as this is their only advantage over foreign firms. They've analysed their most valued channels. They then embarked on strengthening the SCB brand, by updating their logo, and at the same time their core banking IT system, so that hopefully credit scorings will be able to be calculated on the spot. There has been significant emphasis on increased technological investment, and now a new SCB branch is opened every 3 days nationwide. These are often in places where they used to operate, but closed down to streamline' (Santiprabhob, 2005).

The success of this nurturing is now clear in the renewed dominance of the domestic banks versus foreign banks: **'there has definitely been increased competition between the banks, as despite having only 1 branch in Thailand (due to regulation) Citibank was the credit card leader in Thailand for over 10 years. Now KTCB (Krung Thai Commercial Bank) and SCB have surpassed them within the last 3-4 years, increasing their card users from 150,000 to well over 1 million'** (ibid.).

Veerathai also explained that their successes are multi-faceted: **'SCB are now the investment banking leaders in Thailand and also number one in the Thai mortgage market...SCB is now set up like an international bank, and in recent years has become very aggressive. SCB saw last year (2004) their biggest ever profits since the company was formed 98 years ago'** (ibid.). Obviously the change programme has had a dramatic impact on the efficiency, and thus success of SCB, which is an encouraging sign for other Thai banks undergoing internal reform and restructuring.

Can Thai banks achieve the status of international competitors? Perhaps yes, and certainly with time. Veerathai outlined however that streamlining was one of the key policies involved in their restructuring and offices had closed in London, the US and China, so that SCB could focus on their success in the Indochina market. This is characterised by current joint ventures in Vietnam, Cambodia, and also further a-field in Hong Kong and Singapore. The case of SCB, whilst only one example from the many Thai banks in existence, is proof that with the right motivation and sufficient protection to allow for restructuring and development, Thai financial institutions can overthrow the burden of the 1997 crisis and become efficient, profitable companies. The extent to which this success will be reflected in other industrial sectors will become more obvious as reform emphasis shifts away from the financial sector.

7.4: Conclusion

In conclusion this chapter has demonstrated that the financial and banking crises of 1997 had a much wider impact than simply those experienced by the Thai banking sector. Social impacts rippled across provinces and employment sectors in the guises of poverty and unemployment. Informal activities emerged as a popular means to an end. For many reasons, such as the depth of the recession after the crisis under the stabilisation package of the IMF, the backlash of society evoked nationalistic sentiments; as highlighted also in Chapter 6 with the rise of the Thai Rak Thai party. This rise of nationalism forced governments to focus on internal development and the nurturing and promotion of the domestic economy; this change of direction was led publicly the King Rama IX. Evidence of this shift in government focus was seen clearly in the Thai banking sector with the launch of the 2002 Financial Master Plan. The case study of the Siam Commercial Bank symbolises the extent to which success can be achieved given appropriate stimuli and protection, which offers much promise to the future of the Thai banking sector.

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CONCLUSION

This research project has provided an in-depth analysis of the International Monetary Fund (IMF)-policy prescription process in the Thai banking sector, since 1997. The previous chapters have pointed to a multitude of reasons why IMF-policies did not stimulate a quicker economic recovery in Thailand, and why in many cases the policies prescribed by the IMF did not come to fruition. The Thai banking sector has provided a clear case-study for evaluating the difficulties associated with recovering from a crisis, and also the difficulties of implementing appropriate policies. The term 'appropriate' is very subjective and this research has illustrated that the related issues of 'tailoring' and 'suitability' regarding policies are indeed grey areas. Nevertheless, this research has demonstrated that despite the ambiguities related to the appropriateness of IMF policies, there have been a variety of barriers to the efficient and effective recuperation of the Thai economy.

The methodology outlined in Chapter 3 was successful in providing the project with an effective means of data-collection, and this is demonstrated by the material provided in Chapters 4-7. As a result of this success, the conclusions made here were done so with the confidence that accuracy and detail were not jeopardized in the data-collection process. Thus to evaluate the success of this research project one must consider the original research questions and, drawing on the evidence provided in the previous chapters, provide answers not before offered by existing research.

8.1: To what extent did the IMF prescribe suitable, tailor-made policies for the Thai recovery, and what mistakes have been made?

The IMF is keen to demonstrate that all their crisis recovery programmes are designed with local characteristics and exigencies in mind, and also as a result of discussion and negotiation with national authorities. IMF publications frequently cite the importance of tailor-made policies for individual crises; this was discussed in depth in Chapter 4. Nevertheless the IMF does have a 'traditional' 10-point plan at the heart of all its programmes, a plan the IMF neither denies nor promotes. Whilst the IMF admits that it draws on past experience and analytical work for the benefits of hindsight and expertise, it emphasises that programmes are often designed accounting for local authorities' strong preferences and using area-specialists. The IMF state that Thailand's recovery programme was no different to any other, in that it too received careful tailoring.

Despite these persistent claims by the IMF, the Thai experience has provided further evidence in support of those who criticise the IMF for their lack of local tailoring in their programmes. Chapter 4 showed that although the IMF did employ 'Thailand-specialists' in its recovery team, the initial recovery programme, to help stop panic and to aid stabilisation, consisted of stereotypical fiscal belt-tightening, which has come to be expected in all IMF programmes. What is even more frustrating for the critics is that many argue this was an inappropriate policy for the Thai economy, further supporting their claims that the IMF paid little, if any, consideration to the specific requirements of the Thai economy. Evidence from the interview with the Thai politician Dr Kriengsak MP suggested the IMF had simply applied the same policies as they had in all the prior crises they had worked on. This view is in accordance with many prominent academics, who also believe there was nothing 'new' nor 'custom-made' about the policies applied to Thailand, but that they were in fact reminiscent of policies employed in Latin America and Africa in earlier crises.

Chapter 4 also helped to reveal the distinct lack of discussion and negotiation with local authorities involved in tailoring the recovery policies. This, again, is in direct contradiction to the claims made by the IMF in their publications. Evidence revealed by the Bank of Thailand (BoT) representative points to an IMF who were closed to criticism, questioning and debate. The evidence further suggests that the IMF used the threat of reduced international credibility, as well as the $17.2 billion loan, should Thai authorities not conform to their pre-decided policies. This infers that the Thai authorities were not a significant enough force against the IMF to facilitate proper discussions. Unfortunately for Thailand, the experience of Malaysia has since shown that such threats are not the case should economies decided to create their own recovery programmes without the help of the IMF. These intimations, of the IMF dictating their policies, are widely supported in the academic community, and more importantly by high profile individuals such as Joseph Stiglitz and Jeffery Sachs.

The question of 'suitability', as mentioned previously, is difficult to evaluate because of the subjective nature of the true definitions of 'suitable', or 'appropriate'. However, evidence from this research, with help of supporting secondary resources, does point to a series of mistakes which were made by the IMF. These are clearly defined as 'unsuitable' because of their implications. This research states that there were three key mistakes made by the IMF in their recovery programme. Firstly, the aforementioned fiscal belt-tightening is regarded by many as an unsuitable policy for a country already in a serious state of recession, with no significant fiscal debts and showing no future signs of growth. Nonetheless, the IMF employed this as one of their initial policies in an attempt to put a halt to further panic, and to re-stabilise the economy. Chapter 4 illustrates that this had the direct opposite effect, further entrenching the Thai economy in recession by restricting social spending and reducing consumption. The second mistake made by the IMF was their misaligned monetary policy. Instead of aiding a debt-burdened economy with their debt repayments, which would have eased the impacts of the recession, the IMF used a strict policy of high interest rates in an attempt to re-attract foreign capital. With an increasing number of Thai firms declaring bankruptcy as a direct result of this policy, there was insufficient local encouragement for foreign investors to risk investing in Thailand for the benefit of the high rate of interest. This policy was heavily criticised by Dr Kriengsak MP, Stiglitz, Bello and many more well-known academics. The third and final policy, which for many was deemed 'unsuitable', was the conditionality of the $17.2 billion loan. This caused the socialising of billions of Dollars of private sector debt, causing further problems of moral hazard – whereby international investors were not punished for their poor investment decisions and were able to recoup their investments at the expense of the Thai government, and ultimately the Thai people. Further IMF conditions, such as the stringent enforcement of new capitalisation standards on already beleaguered Thai firms, put even more contractionary pressure on the economy. Thus it is clear why these policies can be singled out as 'inappropriate' despite an ambiguous definition of 'appropriate'.

The backlash and response of the Thai people as outlined by Walden Bello (cited p.36, Chapter 4) reiterates the above points that important parts of the IMF recovery programme were in fact 'misguided' and only 'worsened the disease'. This helps to explain why the Thai economy failed to recover as quickly as initially hoped once the IMF programme had been put in place. Whilst the IMF does still argue that its policies are custom-made to each crisis situation, it has since conceded that its fiscal policy in the Thai crisis was excessively austere, exacerbating the crisis, rather than solving it.

8.2: What was the process of policy implementation – how did the IMF channel its policies to the grass roots of the Thai economy, specifically the banking sector?

This question has two parts to it, firstly considering how the IMF initiated and implemented its policies in the Thai economy, and secondly focusing more on the process of channelling the policies through the Thai banking system. Whilst the issue of channelling policies in a specific sector may differ from the processes in other sectors, it offers a good insight to potential barriers to efficient policy infiltration through to the grass roots of a sector, after the policies have been implemented at the top level.

Upon arrival in Thailand, the IMF exerted its policies on the Thai economy after little discussion with the Thai authorities, as mentioned previously. The policies were first introduced into the Thai arena at the highest level in an atmosphere of tension and fear, in un-chaired meetings led by the IMF. Many of the IMF's policies were conditions for the $17.2 billion loan. The main means of communication of these policy decisions were Letters of Intent (LoIs). Whilst the IMF attempt to convey that these are documents drawn up by local governments and then agreed by the IMF, this research has demonstrated that this is in fact not the case; a point Joseph Stiglitz makes clear in his own work. The Letters of Intent are designed and to a certain extent, prescribed, by the IMF; in the case of the Thai experience, the local authorities were given little choice but to co-operate and sign the documents. The first Thai LoI, dated August 14th, 1997, was not published upon being signed by the local authorities. For many this suggested the Thai government was ashamed to disclose how much they had acquiesced to the IMF, thus confirming the Thai government hadn't invented the document themselves. These LoI's contained specific descriptions of the targets and plans for fiscal policy, monetary policy, foreign exchange policy, and medium-term reforms, such as legal and financial reform.

Other more urgent policies were not committed to paper before being enforced. This research showed that the key initial policies, regarding bank closure and the floating of the Baht, were very poorly communicated by the IMF, and as a result, their implementation was haphazard and incited much speculation and rumour. This was to the detriment of the Thai economy, which is ironic as these policies were apparently essential to the 'recovery' programme. The closure of banks was prompted in several stages; however the ineptitude with which this was done created a sense of panic, causing investors to pull out of sound banks unnecessarily. For those banks and finance companies who were suspended, it was up to them to inform the banks which supported them and their employees – for many, these closures came as complete surprises. Whilst the bank closures seemed to be dictated by the Thai government, although many believed this was the work of the IMF and this was later confirmed in the LoIs. The IMF had no public face of its own, and thus anger was directed at the government. The floating of the Baht again reflected poor organisation from both the IMF and the government. This research has provided evidence to infer that within three days of a public statement that the Baht would not float, it was decided internally that it would. This was one of the many inconsistencies which contributed to confusing and angering the Thai people.

Many other policy decisions which took place failed to be either published or communicated orally to the Thai people; they simply occurred with little public awareness. Dr Kriengsak MP outlines in Chapter 5 three issues which have yet to be explained, governing in most cases the extent of favouritism shown to foreign investors. This verifies the lack of clarity provided by both the IMF and the Thai government regarding the policies put in place after the crisis. This lack of transparency in the behaviour of these two institutions was critical in prompting the Nukul Commission's investigation of 1998, in an attempt to illuminate what actually happened in the wake of the crisis.

The second focus of this question concerned the process of channelling the policies from the top government level, through to the foundations of the banking system. As is clear from the above discussion, the efficiency and clarity with which the IMF policies were introduced at the top level were not consistent, and this impacted the infiltration of policies through the banking system.

Evidence from the previous chapters suggests that larger-scale policies, which affected the banking sector as a whole, were executed more rapidly and more obviously, than the more micro-scale policies, such as intra-corporation reforms. Policies, such as the capital adequacy standards, bankruptcy reform and bank closures, were very quick to be implemented, and the banking industry was required to respond immediately to these changes. Whilst these are considered by many IMF critics to have been poorly conducted, the policies themselves did infiltrate the sector quickly.

On the other hand, the more micro-scale reforms to help reorganise and restructure Thai banks were less successful. These included the salvaging of 'good' banking assets from suspended finance companies, and the merging together of suspended firms in an attempt to create new successful banks. Evidence provided by the Siam Commercial Bank (SCB) representative infers that these not only took a long time to take place, but have had little effect on rejuvenating the banking sector. This research has also demonstrated that the most successful regeneration of the banking sector has actually been internally-driven, by the profit-motivated Thai banks, such as the SCB, and not the IMF nor the Thai government. This was evaluated in more depth in Chapter 7.

The conclusions to be drawn from this lead nicely to the next research question for evaluation, suggesting that policies are most efficiently implemented when sufficient motivation within both the government and the related industry sector exists. It is also apparent from this research that the policies which can be enforced more immediately have a much greater chance of being executed than those which require time, as they have less chance of being swallowed by the political quagmire before they are fully implemented.

8.3: To what extent have banking policies been prescribed by the IMF been implemented directly and efficiently by the Thai government, and what have been their biggest obstacles to their implementation?

For each of the IMF policies to be applied in the Thai economy, they had to first pass through the Thai government. The efficiency of their implementation, once they entered the Thai political arena, varied from policy to policy. This research has exposed a number of factors which dictated the speed and efficiency with which the reforms were implemented. In some cases, as one has already seen, IMF policies were implemented with speed, but poorly conducted, and this reduced the overall policy effectiveness. More commonly, as demonstrated by this research, the implementation of banking policies was much slower, but better communicated, for example being outlined in the LoIs, which aided their effectiveness. In some cases policies became lost in the labyrinthine political system and have not been implemented at all.

This research has elucidated four key impediments to efficient policy implementation. The first pertains to the political system, as Chapter 6 showed that many flaws in the political set-up have restricted the decision making process, and significantly slowed the development of reform policies. These flaws relate to a lack of teamwork in the Parliamentary Executive, and a convoluted decision making process involving several government agencies. Central to the political inertia faced by many of the reform policies were inside political interests. Chapter 4 exemplified how debt defaulters within the Senate abused their positions to manipulate reform measures in their favour, characterised by the watered-down bankruptcy law reforms.

This research also points to policy implementation being somewhat contingent on political and public acceptance. Chapter 6 detailed the current proposals for the Thai Rak Thai party's second term, and demonstrated how many of these are former IMF policies which were not implemented in 1997 due to public outcry, yet are now likely to see fruition as a direct result of renewed political strength and muted opposition. Chapter 7 discussed in more detail the reasoning behind this outcry, and the causes of the public resentment of the IMF and its policies.

Evidence of mistrust of the IMF was a third impediment to the reform process. This was responsible for delaying the initial recovery measures, as individuals in the BoT were reluctant to uncover the true extent of the Thai crisis for fear of this information reaching the private sector through close links held by many of the IMF team. This is critical in demonstrating the influential role of individuals in the reform process, as the actions of few dictated the public perception of the institutions they represented, for example the mistrust of the IMF upheld by the general Thai public was in part generated by their mistrust for the international private sector (shown in Chapter 5).

Lack of proper understanding of the IMF policies further hampered the implementation of the reforms. This is arguably the fourth impediment drawn out by the findings of this research. The lack of understanding was critical at the level of the general public, as such absence of clarity aroused issues of suspicion; people were unaware of the specifics of the financial reforms, and it was not made clear to them exactly what was going on. This was discussed in Chapter 5. This contributed to further public resentment of the Chavalit and Chuan governments as people felt that reforms were being foisted on them. This was also an issue at government level, as discussed in Chapter 6, whereby IMF policies failed to generate the support of the policy operators due their technical complexities. This relates back to the second impediment, implying that policy acceptance at a political level is a requirement for effective policy execution.

Whilst banking reform policies have been implemented, each policy's process has varied in speed and efficiency as a direct result of many of the aforementioned impediments. The suspension and closure of banks and finance companies in the early stages of the crisis is a good example of a policy which was implemented with speed, yet which lacked proper and efficient execution, and thus the policy was less effective than initially hoped, causing additional fragility to the already weakened banking sector. In a similar guise to the bank closure, the implementation of capital adequacy standards was rapid and stringently enforced. Some critics argue that the early emphasis on this policy put too much pressure on the heavily-indebted banks, worsening the situation in the banking sector. The reform of the bankruptcy laws has also been one of the quicker reforms to fully infiltrate the sector, however this was subject to political manipulation, and this research has suggested that it is not how the Thai people wanted it to be; hence the speed of implementation does not infer the success of a policy application.

Banking disclosure and transparency have been the more slowly integrated policies, and whilst some areas of banking have witnessed fairly rapid improvements, such as informational transparency on the Stock Exchange of Thailand (SET), others still warrant more attention, such as accounting disclosures. Other policies suggested by the IMF, such as deposit insurance schemes to eliminate the moral hazard issues caused by the Bank of Thailand, have failed to make it passed the complex scrutiny of Parliament. This therefore suggests that the policies which were able to successfully channel through Parliament down to the foundations of the banking sector were the more politically acceptable and less complicated reforms, as discussed in Chapter 6. There is also a directly proportional relationship between the speed of implementation and the level of urgency given to the policy in the early stages of IMF presence. Once the IMF was forced to withdraw from Thailand, and reforms were left up to the government, fewer reforms were implemented across the board – not just banking related; this again appears linked with political and public acceptance, empirically supported by the latest proposals of the Thai Rak Thai party for their second term in government.

8.4: What have been the consequences of re-worked banking policies within Thailand, in economic, political and social guises?

Although Thailand had formally exited the IMF programme in 2000, the BoT made the final repayment of US$1.6 billion to the IMF and other international creditors on July 30th, 2003 – two years ahead of schedule. This represented the closing of a painful chapter which had shaken Thailand, and much of South-East Asia, with lasting impacts. To celebrate, the announcement was made publicly by the Premier, Thaksin, with the Thai national flag as his backdrop; emblematic of a national victory. The 30th July, 2003 was pronounced a public holiday; illustrating the sense of euphoria within the Thai government and the Thai people; they were now free of the IMF.

The state of the Thai economy at the time was, on the whole, sound. According to the governor of the BoT in 2003, M.R. Pridiyathorn Devakula, even with this final repayment, foreign reserves had reached a solid $37 billion, or three times the country's short-term foreign debt (BP, 2003). At the time he made it clear that despite the restoration of the economy's health, further reforms were required, essentially within the Thai legal framework, to ensure a broad-based recovery (ibid.).

The representative from Focus on the Global South, Chanida Bamford, explained in her interview that the IMF reforms were not a legacy, but had a fairly short term impact, achieving very little. The key reforms, she suggests, are those introduced by the current government, led by Thaksin Shinawatra. She also concedes that whilst to a certain extent policy reworking has taken place, neo-liberal policies are happening, despite the former anti-IMF colour of the Thai Rak Thai party (Bamford, 2005). The current economic focus in Thailand is growth, not equity.

There is little doubt that the political meddling at the time of the crisis did not help the recovery process. With regard to economic performance, the re-worked banking policies had a detrimental effect. The dilution of the bankruptcy laws is the best example of this, as inside political interests meant that the laws which were finally passed had not been processed with solely the best interests of the economy at heart. The poorly conducted restructuring reforms also complicated the recovery of the banking sector, harbouring inefficient firms. However the most significant detrimental impact to the Thai economy was not caused by the re-working of policies; it was caused by the three main policy errors conducted by the IMF: the excessively austere fiscal policy, the maintenance of high interest rates, and the over-stringent and wrong conditions applied to their loan. This not only exacerbated the economic downturn, but shifted the burden of debt, caused by misguided private investments, onto the shoulders of the Thai government, further entrenching it into crisis. As a direct result of these policies the Thai economy did not show the expected signs of recovery the IMF had originally hoped for; this was discussed in detail in Chapter 2. What is most interesting about the revival of the banking sector is that the real reforms behind it have not been the result of IMF nor government plans, but the motivation of individual firms to regain credibility and profitability.

For many, such as Dr Kriengsak MP, the Democratic Confederation group, Focus on the Global South, as well as the general population, the biggest consequences of the crisis have been political. Thailand is not renowned for a legacy of political stability, yet the emergence of the Thai Rak Thai party in the wake of the crisis has provided Thailand with a popular and stable government for over four years now. Its re-election victory in February 2005 was overwhelming. Led by billionaire Thaksin Shinawatra, the party promises to make important structural changes during its new political term, having spent its last four-year term lifting the Thai economy from the depths of recession to pre-crisis levels of growth. Whilst Thaksin and his party are not short of critics, it cannot be denied that they have acted with the benefit of hindsight from the crisis, recognising the importance of communication and the need for social safety nets. Thaksin's 'CEO-style' of management has brought new confidence to the Thai economy, although rumours of longstanding Thai 'cronyism' are still rife, as are suggestions of continuing political meddling and nepotism; all reminiscent of the pre-crisis days. Recent work by Pasuk and Baker (2005) demonstrates that policy re-working and manipulation is not over, and in fact exists across a broad spectrum of sectors, not just in banking. They also infer that this is most prominent in the highest ranks of government, which offers little hope for any change in the near future.

Re-worked banking changes have had little social impact, although those who associate closely with the Thai Rak Thai party have benefited enormously from political favouritism. Former government ministers, once shamed by the crisis, have been able to find new positions in the government; close relatives of Thaksin enjoy some of the most powerful positions in government – his cousin is currently Head of the Armed Forces, and his brother-in-law is the Deputy National Police Chief.

The bigger social picture, regarding the general population, has been less affected by re-worked policies, but has suffered significantly since the crisis. As outlined in Chapter 7, there has been a dramatic increase in informal sector involvement, as a result of the large impact of unemployment during the crisis era. Unfortunately for former Thai factory workers who lost their jobs after 1997, most factories that have since experienced a revival have relocated to the Laos, Cambodia and the Burmese border to take advantage of cheaper labour. Many individuals caught up in the Thai drugs trade since the crisis have been subject to the government's recent policies to 'crack-down' on drugs, with reports of over 2000 people being killed as part of the government's policy in 2003. According to a World Bank report in 2002, there were three times as many drugs on the Thai black market in 2001 than in 1998, prison populations had doubled and 75 per cent of new inmates are brought in for drugs-related offences; this represents only a fraction of the social breakdown experienced in Thai communities as a result of the crisis.

Despite significant economic growth in the last four years, issues of equity and inequality are still a concern in Thailand. The Thai Rak Thai party has been very active in establishing more social safety nets, through cheap health care, village credit schemes for rural areas, and a rural debt moratorium. These have been quick to turn Thaksin from a successful businessman to a national hero, although there have been growing concerns about how the Thai Rak Thai party have been able to fund such populist policies, especially as some newspaper reports infer that '*about 30 per cent of the* [village] *loans may have been lost*' (TN, 2005 (59)). With the current levels of growth, many urban dwellers have been able to return to their former consumerist behaviour, and in January 2005 imports grew by a record 33.6 per cent, accounting for $9.17 billion, with the current account reporting large deficits as a result. Reports in the press suggesting '*Highest Deficits Since 1997 Crisis*' (TN, 2005(77)) are already unnerving many Thai economists, with one press report suggesting the excuses given for this deficit are those given before the crisis (TN, 2005(76)).

Nevertheless whilst the crisis hurt Thai confidence, credibility and collapsed their economy, there have been long term benefits as a result. Despite a misguided collection of short-term policies emplaced by the IMF, their long-term recommendations for structural change and reform of key pieces of legislation, and the promotion of new internationally recognised banking standards are vital to establish a mature and stable economy, facilitating the growth of national corporations so that in time they can compete fairly in the global market. The case study of the Siam Commercial Bank has illustrated the success of one firm already, and no doubt many other successfully reformed corporations exist, and certainly more will in the future. The only disappointment in this case is that the grass-root reforms had to be internally motivated because of a lack of direction and efficiency from government ministers.

The outcomes of this research have offered important lessons regarding why reforms prescribed by the IMF did not channel efficiently into the Thai economy – with a focus on the banking sector, and why the Thai economy took longer than planned to recover. This research is not intended to provide a global framework for how to implement recovery programmes in crisis economies, but to elucidate why the need for acute attention to detail is critical in planning and executing reform policies, as is a thorough understanding of the workings of a nation's political system and culture.

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